

# **Management Assessment of Urban Programs for Bureau for Asia and the Near East**

Prepared by

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# **Management Assessment of Urban Programs for Bureau for Asia and the Near East**

## **Executive Summary**

### ***Purpose and Overview***

The goal of this assessment is to provide recommendations to the Bureau for Asia and the Near East (ANE) to manage its urban programs more effectively.<sup>1</sup> In order to do this, the assessment team examined urbanization in the region, its importance in development, the current ANE urban portfolio, and how this portfolio is being managed, both in Washington and the field.

The assessment team undertook extensive interviews in Washington prior to dividing into two groups. One group visited selected USAID Missions in Asia while the other group visited Missions in the Near East and North Africa. Key informant interviews and a review of documents provided the basis for most information from AID/W, USAID Missions, other donor organizations, local NGOs, and host country officials and other knowledgeable sources.

This report provides a summary of the findings of the assessment team. The report contains three sections in addition to this executive summary. The first section provides an analysis of urbanization trends in the ANE region and AID's programmatic response to those trends. Section 2 addresses the management and staffing issues raised by the programmatic response of the agency to urbanization in the region. Section 3 provides recommendations for management responsibility and staffing. Accompanying this report is an annex containing detailed country profiles on the USAID Mission programs visited in the field.

### ***Urbanization Trends and AID's Programmatic Response***

It is not a new observation that countries in the ANE region are becoming inexorably more urban. The Near East is already highly urbanized. The least urbanized AID country in the Near East is Egypt with over 60 percent of its population now living in urban areas. Asia, with a much larger population base, is less urbanized but contains most of the very large "mega-cities" and has very high rates of urban population growth. Asia's urban population is projected to grow at 3.2 percent annually through 2015; by 2030, almost half of Asia's total population will live in urban areas.

Urbanization, especially massive and rapid urbanization as experienced in Asia and the Near East, presents tremendous opportunities to a society and economy. Evolving urban systems are where most economic growth is likely to occur in the twenty-first century and represent one of the best hopes of broadly alleviating poverty and creating wealth.

But in order to realize the economic potential of urbanization, much depends on policy and governance at the center and locally.

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<sup>1</sup>For the purpose of this study, urban programs include those that address the issues of urban planning and management, urban governance, delivery of public services, and urban environmental management. It also includes the urban components of other sector programs, including governance, economic growth, population, and health.

AID has dealt with the urbanization challenge both directly through programs targeted at solving urban problems per se and indirectly through sector programs that affect urban populations. In this assessment we note that the former – which we label “urban development/governance programs” – have changed in character over the past decade from a primary focus on urban physical infrastructure and housing to a much broader focus on urban governance, economic development, national policy reform and local capacity building. At the same time, the sectoral programs – particularly health, water/sanitation and education – have become increasingly aimed at urban populations.

Unfortunately, the debate over the programming focus – urban versus sectoral – has often obscured the fact that there is a clear intersection of interests where urban development/governance programs and sectoral programs should be mutually reinforcing. This intersection is defined as the place where sectoral programs either impact directly on urban governance (e.g., decentralization of education services to local government) or require improved urban governance to work effectively. Ideally, programming in these instances would involve multi-sector design with elements of both sectoral interventions and urban governance.

AID has already recognized this potential for cross-sectoral collaboration through the “Making Cities Work” initiatives of the central Urban Programs Office. And, as a field-based example, the Philippines Mission is following its successful local government capacity building program with an effort to infuse elements of decentralization support throughout its sector programs. However, these efforts have not yet been pulled together into a critical mass that defines a new programming direction – we suggest that ANE adopt a more aggressive policy of developing programs that specifically target the intersection of urban governance and sectoral needs. This policy in effect will “mainstream” urban programs within the region by integrating them into the fabric of Mission programs. This approach makes even more sense in the light of AID’s emphasis on agriculture and job creation, because the roles of urban areas in both these sectors has become increasingly important.

We note that there are some very specific targets of opportunity for urban development/governance programming in the ANE region. AID worldwide has developed experience and a comparative advantage in the field of urban policy support, an area that, within the ANE region, other international donors have largely ignored in favor of both local capacity building on the one hand and infrastructure provision on the other. There is an excellent opportunity to marry AID policy support to the capital investment funding of the multi-lateral development banks. This approach could greatly leverage AID technical assistance resources. Indeed, with the growth of the Agency’s Development Credit Authority (DCA), AID Missions can now leverage not only their technical assistance resources but also DCA resources in partnership with the development banks.

A second target for urban development/governance is in decentralization support, notably local government capacity building. Urban programs in the Asia region have become increasingly concerned with governance issues while those in the Near East have remained focused largely on infrastructure. This difference reflects the greater responsiveness of Asian central governments in general to issues of decentralization while central governments in the Near East have been much less responsive to governance and decentralization issues. That has begun to change somewhat with new royal leaders in Morocco and Jordan. It may change more dramatically and on a wider

scale with the political re-assessments that have emerged in the wake of 9-11. Indeed, the Agency may have an historic opportunity to provide local governance strengthening more broadly in the Near East (where Morocco is the only Mission now with an ongoing local government support program).<sup>2</sup>

### ***Management and Staffing Issues***

The urban portfolio has become much more diversified over the past decade within the ANE region, running the gamut from large scale infrastructure programs in Egypt to decentralization support programs in the Philippines, Indonesia and India. At the same time that the urban portfolio has so rapidly diversified, the resources – especially staff resources in the region – have diminished. It should be clear that managing AID’s urban agenda requires both a wide range of technical skills as well as intimate knowledge of individual country situations. In the past, the regional urban development offices (RUDOs), once a part of the Urban Programs office and now a part of their respective ANE USAID missions, could specialize to a large degree in housing and infrastructure finance linked to the housing guaranty loan program. This permitted a regional focus and a tight substantive concentration. Now, a wider range of technical skills is called for along with closer attention to individual urban issues in the individual Mission countries.

This changed focus further strengthens the argument to “mainstream” urban programs within Missions. Our call for a more aggressive targeting of the intersection of urban development/governance and AID sectoral programs further reinforces this mainstreaming recommendation. This does not mean that there will no longer be regional functions but they will largely reflect the kinds of regional activities now being carried out by the RUDOs:

- information dissemination and assistance in project design
- donor coordination
- fostering policy dialogue among key host government counterparts

These are activities that do not require a dedicated regional office and can be operated, as now, from a combination of Mission-based offices and Washington.

There is a need for expanding the staff skills in the urban disciplines. There are several functions that need strengthening at the central level. First, the ANE Bureau, or more likely, the Urban Programs Office (UP), will have to take the lead in developing crosscutting approaches to deal with the sectoral-urban governance interfaces. We note that there has been very little experience with this specifically in the ANE portfolio. Where it has been – or is being attempted – in other parts of AID, the design process has usually not run smoothly. And, since there has been some work in other regional bureaus, AID/W is best placed to investigate that experience and make it transferable to its Missions. This would argue for adding technical resources within AID’s Office of Strategic Planning, Operations, and Technical Support (SPOTS) and/or expanding technical resources that are available to ANE on a dedicated basis through the UP office.

A second area where central resources need to be expanded is in the field of urban policy development. If the agency decides to capitalize on its experience in several key Asian countries

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<sup>2</sup> Egypt had an extensive program in the past; West Bank and Gaza has such a program on the launch pad but it has been shelved due to the fighting.

and in some other AID Missions to establish this as a programmatic thrust in ANE, then more attention must be devoted to it. We suggest a number of potential topics to pursue.

We make a specific recommendation to have an “urban” person within the SPOTS division with a broad mandate for initiating the urban policy review mechanism, research, and technical support for the bureau’s urban programs. This person would collaborate closely with the UP office and play a key role in developing the policy to target the intersection of urban governance and sectoral interventions in Mission project design. We realize that with today’s staffing limitations, this may be difficult, but we believe that it is essential.

The central question facing the ANE Bureau is what kind of management and intellectual framework it should seek to foster in the face of the urbanization that is taking place, the trends in responses that we have seen, and a careful assessment of its importance and level of priority among a myriad of competing interests. Our conclusion is that urbanization is one of those facts of life that cannot be ignored and that needs to be factored into the fabric of a country’s and Mission’s deliberations and consciousness. We believe helping Missions decide what they should be doing to address urbanization is the most appropriate role for the ANE Bureau.

# 1. AID Response to Urbanization in the ANE Region

## 1.1 Major Urbanization Trends

### *Patterns of Urbanization in Asia and the Near East*

The worldwide trend toward greater urbanization is well documented. By 2020, the number of people living in developing countries will grow from four billion to 6.8 billion. As much as 90 percent of this increase will be in rapidly expanding cities, towns and extended urban areas.

Asia's urban population is projected to grow at 3.2 percent annually through 2015 and 2.6 percent annually to 2030, reaching 49.3 percent overall at that point. There is wide variation in the projected magnitude and relative importance of urban in total national populations (Table 1, below).

**Table 1. Asia Urban Population Projected 2030 (millions) In Rank Order<sup>3</sup>**

<b>Rank:</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
	Mongol.	Philip.	Indon.	Pak.	China	Myan.	India	B'desh.	Laos
Urban Pop.	3	84	180	157	760	28	633	82	5
% of Total	76.0	73.8	63.5	55.9	50.5	46.6	45.8	43.8	42.6

<b>Rank:</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>
	Sri L.	Maldiv.	Afgan.	Thai	Vietn.	Camb.	Nepal	Bhutan.	E.Tim
Urban Pop.	10	0.22	20	29	38	5	11	0.77	0.19
% of Total	41.9	41.3	39.9	39.1	33.7	31.9	26.4	17.9	15.0

Generally, the largest countries tend to have a higher proportion of projected urban population, with those in Southeast Asia considerably higher than those in South Asia. China is expected to reach 50 percent by 2030. Nine of the 10 mega-cities (more than 10 million population) in the ANE region will be in Asia, two South Asian ones (Mumbai and Dhaka) are projected to exceed 20 million, with Karachi, Calcutta and Jakarta close behind. Regardless of the differing patterns of urban population distribution among cities of different sizes in a given country, the major AID assisted countries in Asia – the Philippines, Indonesia, India and Bangladesh – face immense challenges in managing the provision of urban services and providing employment for urban populations – all exacerbated by the special problems of mega-cities.

The Near East's population<sup>4</sup> is already much more urbanized than that in Asia, as shown in Table 2 below. However, only one of ANE's mega-cities, Cairo, is to be found in the Near East. Generally, the smaller countries in the Middle East have the highest percentage of urban

<sup>3</sup>World Bank figures; *CIA Factbook 2000*; United Nations Development Programme; U.N. Center for Human Settlements, *Cities in a Globalizing World: Global Report on Human Settlements, 2001*

<sup>4</sup> The Near East region includes both the Middle East and North Africa.



populations, but all countries in the region are faced with high population growth rates, among the highest in the world.

**Table 2. Near East Urban Population Projected 2030 (millions) In Rank Order<sup>5</sup>**

<b>Rank:</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
	WBG	Lebanon	Jordan	Tunisia	Algeria	Morocco	Syria	Egypt
Urban Pop.	NA <sup>6</sup>	5.1	10.0	10.5	36.7	29.2	19.4	60.1
% of Total	99.0	95.0	90.0	78.4	74.4	72.0	69.1	60.0

### *What Urbanization Has Brought to the Region*

Urbanization, especially massive and rapid urbanization as experienced in Asia and the Near East, presents tremendous opportunities to a society and economy. Evolving urban systems are where most economic growth is likely to occur in the twenty-first century and represent one of the best hopes of broadly alleviating poverty and creating wealth. It is in urban areas that the greatest potential for modern national development occurs in the countries of the ANE region.

At the same time, increases in urban population have brought massive problems of services delivery, dangerous environmental conditions, health issues, and an increase in urban poverty, particularly where the managers of urban areas have been overwhelmed by the population surge.

As agriculture declines as a share of GDP, manufacturing and services begin to dominate. Manufacturing and services are produced more efficiently in densely populated areas having readily available labor, networks of complementary firms, and critical masses of customers. What is critical to this is investment, both high- and low-end. Globalization has made foreign direct investment a major force in urban economic development worldwide in recent years, to the extent that cities often compete with one another directly. The ability to attract investment, both foreign and domestic, will increasingly separate winners and losers, with the attractions being comparatively well-managed environments, educated work forces, efficient and affordable public services, and suitable internal and external infrastructure. The large urban work force at the low-end of the urban economy also needs resources to play an effective role.

But in order to realize the economic potential of urbanization, much depends on policy and governance at the center and locally. Parenthetically, in most ANE countries, local government is inadequately empowered, poorly financed, lacks trained staff, and is poorly managed, making it difficult to deal with the problems and the opportunities of cities and extended urban regions. In addition, in some countries, the benefits of sensible decentralization have not been recognized or, if recognized, have not yet been capitalized upon. Ultimately, if not addressed, these deficiencies can subvert much of the promise of economic development that urbanization brings.

<sup>5</sup> See footnote 3.

<sup>6</sup> Figure unavailable for 2030.

There is a high degree of commonality concerning what urbanization has meant for the countries and territories examined most closely in this assessment<sup>7</sup> – tempered by the degree of severity of urban problems and the receptivity of governments to reform. The following are some of the major common themes.

### Economic Growth

In all countries studied here, much of the economic growth in the future, including job creation and the growth of agro-business, will be urban related. Some cities will be far more successful than others in global and regional competition for investments, and in regional and national competition. The better they are governed, the more attractive cities are to investors. Those that cannot keep up may well remain or become drains on national resources.

### Decentralization and Local Governance

Urban economic issues are closely linked to issues involving decentralization and local governance. Here, while there are clear differences between the Near East and Asia, the importance of local governance as the basic issue remains. In the Near East, because of the history of strong central governments in most of the countries, decentralization has been a more constrained phenomenon than in Asia. In Asia, while there has been more emphasis given to decentralization, governments at all levels, for the most part, have failed to keep up with rapid urbanization. Most local governments throughout the ANE region are severely constrained financially and often are not well-managed. Many are remote from disaffected civil society elements and the business community. There are clear distinctions between the development needs of national policy level work and local capacity building, and issues at both levels must be addressed. But it is at the local level that the potential exists for confronting and overcoming urban problems and improving the prospects for urban economies to be drivers of sustainable and equitable growth.

### Extended Urban Areas

Far more urban population is present in the peri-urban areas surrounding already large cities in Asia and the Near East than statistics (and policy) capture. Economic functions are complex in these massive conurbations, involving combinations of industry, services and markets for agriculture; public services and governance usually are in disarray; and it is here that new industry generally locates, bringing both opportunities and challenges. Extended urban areas represent an important analytical and strategic frontier in development policy and assistance.

### Urban Health and Water

Health is an excellent example of a development need that dramatically impacts urban areas – in terms of the special health hazards in cities and numbers of those endangered. Addressing health hazards effectively does not necessarily call for special urban programs, so long as population coverage is maintained regardless of location. In fact, accessibility of targets and organization of services is often easier in cities in the numerous and dense urban slum communities, especially if civic participation is integral to urban governance.

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<sup>7</sup> Morocco, Egypt, Jordan, Lebanon, West Bank and Gaza, India, Bangladesh, Indonesia, and the Philippines.

ANE has taken a significant step in commissioning research on urban health issues in Asia and the Near East. Beyond this, all AID Missions have long histories of health interventions in their respective countries, which have gradually seen an increase in urban coverage and the surfacing of urban issues. The complexity of these issues should not be underestimated. Better urban governance might not necessarily lead to improved health results in the absence of a real understanding of what is going on in urban areas and the reasons for deficiencies in care. Fashioning programs in which urban governance and health initiatives are mutually reinforcing is the key to improved results.

A second example of development need and response concerns water, a major development target in the Near East. In Jordan and Egypt, in particular, there has been excellent progress in the provision of infrastructure in urban areas and there are lessons to be learned from these experiences. The Missions have been strong in not only providing the primary infrastructure but also, more recently, in helping these countries to establish the regulatory framework and to improve the organization and management of the corporations responsible with the purpose of bringing in the private sector. Decentralization of activities by water corporations has also been an important ingredient in the evolution of AID's approach in this sector.

### *Country and Donor Perspectives on Urbanization*

Country policies concerning urbanization in the ANE region vary widely, while those of the major donors have evolved over the years to be rather similar. Many countries remain highly centralized in both financial management and social and economic policy decision-making and execution. That applies generally in the Near East sub-region, although both Jordan and Morocco have, under new royal leadership, expressed a determination to place more authority at the local level in some manner. In Asia, Indonesia has recently launched massive decentralization to municipalities and regions. India and the Philippines have the legislative mandate to do so and have made efforts in this direction. The rest of Asia falls farther down the continuum of decentralization action. For example, Thailand is decentralizing, while Malaysia and Vietnam appear to be heading in the opposite direction. For the poorest countries across the board, policy on urban infrastructure and social investments – to do more – has been severely constrained by low revenues, poor management, political behaviors, and corruption. Massive infrastructure and social needs are the result, some of it unfulfilled for decades.

The World Bank and Asian Development Bank, with ample resources, historically have emphasized the provision of infrastructure in their urban portfolios. While they are still thus inclined, their approaches have broadened over the last 10 years. Urban health issues, such as HIV/AIDS, have begun to draw their attention, as well as decentralization and a renewed focus on urban poverty. The British Department for International Development (DFID) is a major bilateral donor in ANE, especially South Asia. DFID's agenda, elements of which are increasingly incorporated in the agendas of most major donors (including AID), emphasizes:

- participation by the poor in decision-making
- developing the capacities of local governments and local actors
- supporting national governments to strengthen the legislative and regulatory framework within which city based development takes place

- improving capacity to address the urban challenge through information support, and knowledge and research development

### *AID Urban Programming*

For AID, virtually all sector objectives and programs have urban components or impacts, either explicitly or implicitly. To deal with urban problems and opportunities as they grow, however, ANE has seen, and in some countries explicitly adopted, two complementary general approaches that have proved valuable. These approaches are also the basis for AID's comparative advantage in addressing urban issues, accompanied by AID's traditional advantage of country presence and local knowledge. These two approaches are:

- **Sectoral Focus:** Urban areas and their populations and economies have seen a broad range of AID activities such as health, water, education, credit and finance, environmental management, humanitarian assistance, democracy and governance, food security, and disaster response. These sectoral programs have focused successfully in a number of ANE countries on these issues and have given Missions experience in addressing them in urban settings. This, in turn, has meant that Missions have gained a distinct comparative advantage in a number of countries in these particular areas.
- **Urban Development Focus:** A second approach, less prevalent in overall Mission strategies, has also emerged as a broader response to rapid and massive urbanization in the ANE region. It is characterized by an emphasis on democratic governance and decentralization, local government capacity building, and greater and more effective provision of services at the local level accompanied by greater financial autonomy. A number of Missions, particularly the Philippines, Indonesia, India and Morocco have taken a lead in this direction over the last 10 years. This experience has also provided AID with clear comparative advantages in the urban development arena that do not require massive resources.

## **1.2 AID Programmatic Response**

While development activities take place in the field and fall within approved Mission strategies, there are a number of strong support elements that come from the central offices in ANE and other bureaus. The efforts of these central offices as well as activities in each of the sub-regions are summarized below. They indicate that AID is evolving its urban responses in the two directions noted above, those with a sectoral focus and those with a broader urban development focus.

### *ANE Bureau*

ANE provides technical support and liaison to the field through SPOTS. While there is not yet a specific focus on urbanization or urban issues in the region, the SPOTS's environment officer, in liaison with the Global Bureau's Environment and Urban Office, handles urban concerns within ANE and with the field. ANE has become increasingly aware and responsive to urban issues on a sectoral basis, especially concerning water and health.

### *US-Asia Environmental Partnership*

The US-Asia Environmental Partnership (USAEP), is addressing environmental issues in Asia, working in partnership with other U.S. Government agencies, and also with the private sector and with states and cities in the United States. USAEP has a strong urban focus in its partnership programs to promote better environmental management systems, and expand incentives and strengthen public policies for environmental quality. USAEP has been especially effective in promoting environmental standards and enabling urban environmental improvements in water supply and air quality. USAEP has also focused on job creation issues in connection with its environmental work.

USAEP's current urban strategy, developed in FY00, has three components (policy dialogue and networking/outreach, urban management and finance, and urban services and environmental quality), and has had impressive results. For example, USAEP engaged 125 municipalities in nine Asian countries in FY00 and 214 in FY01. FY01 mid-year performance data indicate 21 Indian and 13 Philippine municipalities were assisted to improve implementation of solid waste management, and 36 Indonesian local water districts to improve clean water distribution. USAEP's unleaded gasoline campaign has had a successful regional reach of a more coordinated nature, collaborating with the U.S. Trade Development Authority, the Asia Development Bank and World Bank, among others.

The USAEP also provides a potentially important staff resource to the ANE Bureau through its network of field-based Personal Service Contractors (PSCs), which number about 35 and are spread throughout the Asia region.

### *Office of Environment and Urban Programs*

UP has been AID's principal central urban technical office for the past several decades. During most of this period, UP had its own earmarked resources, consisting of the housing guaranty program and associated operating expenses, and worked through a system of quasi-autonomous RUDOs. With their own resources, RUDOs complemented Mission programs, but were also often outside the mainstream of Mission objectives and activities. Because the main thrust of most Mission programs was rural or sectoral in nature, the existence of the housing guaranty resource enabled AID to maintain a broader urban program, but often at the periphery of its other objectives. Paradoxically, as urbanization began to loom ever larger as an issue in the 1990s, the housing guaranty resources began to dwindle. Finally, Congress phased it out in favor of the broader development credit authority, noted below.

Historically, the relationships between Missions and RUDOs in the ANE region have been diverse. This is to be expected, given the dynamics in each individual country. In most cases, the individual Mission director played an important role in determining the exact nature of the relationship and the responsibilities. Over the past decade, RUDO activities have expanded well beyond their initial focus with housing finance and infrastructure lending. While RUDOs still maintain an interest in the financing of urban services, the scope of their urban development activities has broadened considerably into much more of an urban governance agenda.

As their own resources dwindled, RUDOs have become more closely integrated with those Missions that have exhibited interest in urban programming and were amenable to supporting urban activities with Mission resources. During the 1990s this meant that in ANE, RUDOs began to concentrate increasingly on country programs in India, Indonesia, and Morocco, where

the RUDOs were based. At the central level, UP began to assume the more traditional role of a central technical office and introduced a new strategic approach to urban programming called making cities work (MCW). The MCW approach seeks to integrate both AID responses to urbanization noted in section 1.1.d above, and emphasizes the broader governance approaches to urban development already noted in section 1.1.c. MCW is an important initiative in that it explicitly seeks out opportunities to link sectoral programs of AID Missions, such as health, with urban governance. This provides a useful model for improving both sectoral programs with urban target populations and programs aimed at strengthening urban governance per se.

### *Other Urban Related Central Elements*

Other central elements providing support for urban related activities include:

- the Office of Development Credit in the Economic Growth Center of the Global Bureau, which manages the new Development Credit Authority, a smaller but growing sequel to the Housing Guaranty Authority, which holds much promise for urban-based programs
- the Energy Office in the Environment Center of the Global Bureau, which addresses climate change issues as well as the more efficient production of energy, and has recently begun to focus more directly on the development uses of energy in urban areas
- the Center for Democracy and Governance, which addresses, among other things, decentralization issues in support of Mission programs in several countries in the ANE region
- a number of the other technical offices in the old Global Bureau, including health and education, which through their technical support, resources, and research provide strong support for addressing sectoral issues

### *The Near East Sub-Region*

Our review of the AID response for the Near East focused on five countries: Egypt, Jordan, Morocco, West Bank and Gaza, and Lebanon. Four of these countries are key constituents of the Middle East peace process and their large annual budgets reflect this vital U.S. interest. Detailed country analyses are found in annex.

Each of the AID Missions has urban-based activities as noted in section 1.1, mostly with a sectoral focus. This is strongest in Egypt and Jordan, with respect to water and health. Egypt has also had broader urban programs in the past, while Morocco has increasingly emphasized urban issues and their relationship to overall development. The West Bank and Gaza has had its broader urban initiatives curtailed by the current turmoil. We believe there are four important characteristics that impact urban areas in the Near East sub-region.

First, the scarcity of water is an overriding concern in most of the countries, and water programs have been central to AID strategies in all of the countries in the region. Because of the lack of primary infrastructure and the availability of relatively large amounts of funding, much of the AID expenditures have gone into construction. However, the regulatory framework and the

efficiency of the organizations responsible for the provision of water have been increasingly targeted, as have policies concerning subsidies and the uses of water.

Second, job creation is of great, and growing, importance. The populations of most of the countries are young. Jobs are urgently needed. AID has responded across the board with programs, including micro-lending, most of which take place in urban areas.

Third, health programs have been important among Mission programming objectives. HIV/AIDS has not yet become as serious a problem as in other parts of the world. However, traditional AID family planning programs have been important and are helping to curtail population pressures on scarce water resources. In most of the countries, health resources have been increasingly programmed to serve urban areas.

Fourth, in contrast with Asia, decentralization to local governments has been less at the forefront of most countries' development agendas. These are countries with strong centralist histories. In spite of this, three AID Missions (Lebanon, Morocco, and West Bank and Gaza) have begun to work with local authorities within the frameworks of what is possible, given this centralist fact of life. We should note that, post September 11, there is a rationale for revisiting the whole question of whether AID should be promoting a more aggressive governance agenda in the Middle East. If that is the case, then urban governance and decentralization will become important programming themes – as indeed they have become in Indonesia, which has the largest Muslim population in the world.

### *The Asia Sub-Region*

In Asia, our review of the AID responses focused on four countries: Indonesia, the Philippines, India, and Bangladesh. With the exception of Bangladesh, each of these countries has seen substantial AID activities in urban areas. Detailed country analyses are to be found in annex.

RUDOs are based in two of the four countries (India and Indonesia) and, as in Morocco, are considered to be part of each Mission's overall efforts, with substantial urban programs. The Philippines Mission has carried out one of the most effective and extensive local governance support programs in the world, largely urban based. Each of the USAID Missions has also implemented urban-based sectoral activities.

Across the Asia sub-region, we believe that there are four important characteristics that affect urban programming.

First, partly in response to population pressures and partly in response to the evident needs at the local level and the generally larger country size, there has been relatively greater decentralization to local governments than in the Near East. Indonesia has launched a wide-ranging decentralization program in the last several years. India and the Philippines have laid the constitutional basis for decentralization. USAID Missions in these three countries have responded in a variety of ways in support of these measures, although it is evident that decentralization support is a long-term effort with both national policy support requirements as well as extensive capacity building at the local levels.

Second, while the percentage of urban dwellers is lower in Asia than in the Near East, the composition of this urban population raises significant issues. The sheer numbers involved has meant a greater number of larger cities than in the Near East, with the attendant density and governance issues associated with larger cities. The financing and provision of infrastructure services to great masses of people has impacted each of the Asian countries. In both India and Indonesia, the Missions have specifically targeted this as a development priority.

Third, the urban environment has assumed great importance and there have been a number of initiatives in the various countries, as noted above. In particular, USAEP has been active with large numbers of municipalities and there has been some emphasis on more efficient energy uses. Urban densities impact the environment and require more extensive infrastructure services, as already noted.

Fourth, as already noted, urban population increases and densities impact the social sectors dramatically, especially the health and education sectors. Mission responses in urban areas have been important particularly in the health sector, which has been a priority-programming target in the region. However, because there are also important needs among rural populations, health resources in Asia have tended to remain concentrated in rural areas and have not seen as large a movement toward urban areas as in the Near East.

### **1.3 Critical Programming Issues**

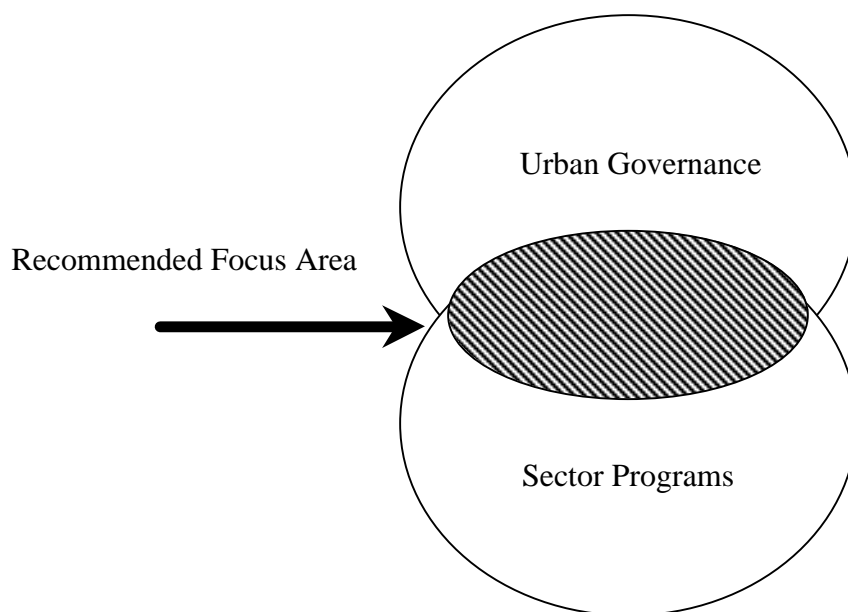
The brief review of urbanization trends and the various responses from ANE Missions and AID in Washington suggests that AID has addressed urban issues in a number of different ways. There has been an evolution in AID urban programming trends, which can be summarized as follows:

- the growth of sectoral programs with significant urban impacts (including impacts on urban governance systems as well as directly on urban populations)
- an evolution of urban development programs away from a heavy infrastructure investment focus and toward broader governance, policy reform and local capacity building
- the extension of urban environmental programming beyond traditional water and sanitation concerns to encompass a broader set of issues and actors, especially private sector

The most important of these trends is the “urbanization” of sectoral programs, e.g. health and water, which take place increasingly in urban areas. These sectoral programs are increasingly intersecting with the urban development programs that have themselves evolved into broader urban governance programs. We believe that the future of ANE urban programming lies at this intersection of sectoral programs and urban development/governance programs. In the past, too often, the differences between the two orientations have led to a tension in programming – sector versus urban – which has made it sometimes difficult to build on the natural synergies that do exist.



The Urban Programs Office has adopted this cross-cutting collaborative orientation in its “Making Cities Work” initiatives and we feel that this approach should become a cornerstone of future urban programming in the ANE region. This will not remove all the “turf” issues in the urban versus sectoral debate by any means but it should help to focus on a programming gap where AID brings strong technical resources.



Future ANE Urban Programming: Intersection of Sector Programs and Urban Development/Governance Programs

## 2. Management Issues in AID's Programmatic Response

### 2.1 *Emerging Management Options*

The preceding section has demonstrated that AID's urban programming in the ANE region has become much more diverse over the past decade. At the same time that the urban portfolio has so rapidly diversified, the resources – especially staff resources in the region – have diminished. The main issue now is to determine just what staffing and management arrangements are needed in light of the changed programming trends. We start this process first by identifying the main types of technical and managerial functions now being undertaken within the urban portfolio in the region. The following list summarizes these functions based on our field analyses of the current state of Mission programming:

**Policy research/dialogue** – Analysis and assistance to national government agencies on urban policy formulation.

**AID country strategy development** – Analysis of urban issues and design of Strategic Objectives for individual Missions.

**AID project design** – Design of specific intervention projects to fit urban-relevant SOs (includes “urban development/governance” projects as well as “urban impact” sectoral projects).

**AID project management** – Day-to-day management of implemented projects.

**Donor coordination** – Collaborative work with other key donors, especially to coordinate policy dialogue, country strategy development and field-level project operations.

**Intellectual capital formation** – Accumulating and disseminating knowledge on urban trends, policy and project interventions in order to improve the effectiveness of each.

It should be clear from a review of the list of functions above that managing AID's urban agenda requires both a wide range of technical skills as well as intimate knowledge of individual country situations. In the past, the RUDOs could specialize to a large degree in housing and infrastructure finance linked to the housing guaranty program. This permitted a regional focus and a tight substantive concentration. Now, a wider range of technical skills is called for along with closer attention to individual urban issues in the individual Missions. The principal management questions then become:

- What is the appropriate mix of substantive skills needed to develop and manage the emerging urban program in the ANE region?
- What is the appropriate deployment of personnel to achieve the right substantive skill coverage?
- What are the locational factors in personnel deployment – both in terms of geographic location as well as administrative unit?

## **2.2 Mix of Substantive Skills**

As noted above, for the sake of our analysis we have organized AID Mission urban programming into two broad categories: “urban development/governance” and “urban impact sectoral” programs. We may further distinguish urban development/governance programs by the extent to which they are aimed at the national policy level support or local government capacity building (keeping in mind that many mission interventions contain elements of both). Our analysis of urban development/governance programs across the ANE region has revealed, in general, a greater emphasis on local capacity building than on policy level work, with several notable exceptions (Morocco, India, Indonesia and, in the past, Egypt).

The following identifies some of the key substantive areas in urban programming where AID will need to match staff resources to emerging programming needs.

### *Urban Development/Governance: Opportunities for Policy Support*

In addition to the current focus on urban policy in several ANE countries, AID has also developed valuable experience in urban policy support outside of ANE.<sup>8</sup> Furthermore, this is an area where the other main international donors in the urban sector have been active only sporadically. This is clearly a substantive area where AID could play a more dominant role across the region if it so chooses. Looking at the successful examples of policy support around the world suggest that four conditions should met in order to play a larger role in urban policy dialogue across the ANE region:

- AID must have more staff depth in the area of urban policy analysis
- AID should be willing to make a long-term commitment of staff resources in target countries
- AID must be willing and able to join forces with the multi-lateral development banks to marry its policy support to the availability of long term capital investment resources
- AID should maintain regional capability to the extent that the policy experience within ANE countries can be shared among the countries in the region<sup>9</sup>

Beyond the question of conditions for success is the question of what should be the AID substantive focus in the urban policy arena. Owing in part to its RUDO legacy, AID’s main emphasis in the urban policy sphere has been primarily in urban finance policy, in particular credit market development and urban infrastructure finance. A central question is whether AID should continue to concentrate its urban policy expertise in the finance sphere or whether it should expand into other substantive areas – in particular those that are gaining attention among the aid donors generally such as poverty alleviation, disaster mitigation, and social sector decentralization. There is good reason to retain a strong technical focus on finance in part because of the emergence of the DCA program. While the DCA is not aimed at urban infrastructure financing per se, this has become one of its principal applications and the RUDO staff worldwide have been instrumental in developing DCA uses.

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<sup>8</sup> The AID portfolio in South Africa as well as the local government strengthening programs in Central and Eastern Europe have significant policy components.

<sup>9</sup> This was a role promoted vigorously by the AID Asia Regional RUDO in Bangkok in the late 1980’s to early 1990’s and is still maintained by the Jakarta RUDO but at a lower level of intensity.

There are other reasons to adopt a broader urban policy capability beyond that of finance. Both the ADB and World Bank have committed to “poverty alleviation” as a central theme of urban programming and are still groping with how to turn that objective into lending programs. Some of this work is revisiting the types of projects that were central to the RUDO portfolio in the past, namely slum upgrading. The AID experience and staff expertise is extremely relevant to these “new” initiatives of the multi-lateral donors and could serve as points of collaboration.

### *Urban Governance: Local Capacity Building*

Local capacity building in urban development/governance has been a focus of several key USAID missions in the ANE region, notably the Philippines and Indonesia, and to a lesser extent Morocco and (in the past) Egypt. The West Bank and Gaza Mission has seen its ambitious local governance program shelved because of the fighting. Local capacity building is also an objective shared by the “governance” wing of the Democracy and Governance Center programs in general – most notably for the ANE region in the Philippines programming. Since local capacity building can consume a good deal of program resources directly, much of the AID effort has been directed at creating institutional infrastructure and prototype “best practices” to support local capacity building rather than direct technical assistance at the local level – although a considerable amount of the latter has been done, especially on a pilot demonstration basis.

The focus on institution building at the local level has required AID staffing expertise both in the substance of local government management as well as the general field of organizational development. Much of the institutional development under AID urban programming has been directed at establishing so-called “intermediate support institutions” such as municipal associations and technical assistance organizations to support municipal level operations. It is probably safe to generalize that much of the urban governance expertise within AID today is comprised of this mix of local government management and institutional development experience. Outside of the ANE region, AID has acquired extensive experience over the past decade in programming to strengthen urban governance, most notably in Central and Eastern Europe and in Latin America.

The global experience in AID’s local government capacity building portfolio represents a huge stock of intellectual capital in this field. In general, it appears that AID has been more successful in capturing and disseminating this knowledge on a regional basis than on a worldwide basis. In terms of this assessment, the question is, whether this knowledge should be shared across the whole of the ANE region and what can the ANE Bureau do to facilitate that?

### *Sectoral Programs with Significant Urban Impact*

These types of “urban” programs are the most difficult to deal with from the perspective of this assessment and, for the most part, these sectoral programs have so far defied attempts to bring them under any kind of urban umbrella. These are programs conceived as largely sectoral interventions, but have sizeable impacts on urban populations and, by extension, urban governance. Given the very high rates of urbanization in the Near East and the rapid rates of urbanization in Asia, it seems inevitable that almost all sectoral programs in the ANE region will become largely “urban” at some point. This does not mean that AID Mission programming should become dominated by urban development/governance concerns. However, there are some

significant interactions that are becoming common between sectoral programs and urban development/governance programs, and those need to be dealt with systematically.

We see four main types of interactions that deserve attention:

- sectoral programs that directly impact on urban governance (for example, decentralizing education services to local governments)
- sectoral programs that need improved urban governance to work effectively (for example, water supply projects that rely on co-financing or cost recovery by local government)
- sectoral programs that affect the national urban policy environment (for example, social safety net programs that affect policy on charging for local public services)
- sectoral programs that can make use of transferred knowledge accumulated in urban projects (for example, cost recovery approaches developed in slum upgrading that may be applied to cost recovery in community health services)

The most critical interactions of the four cited above are the first two – where sectoral programs either impact directly on urban governance or require improved urban governance to work effectively. Ideally, programming in these instances would involve multi-sector design with elements of both sectoral interventions and urban governance. At a minimum, we suggest that urban management expertise be available to the sectoral program managers to provide inputs on program design. This would generally involve a two-stage process comprised of (a) identifying where the critical urban governance interactions will occur and (b) designing program elements to account for those interactions.<sup>10</sup>

This type of programmatic assistance is going to require types of urban management expertise that are not entirely familiar to AID urban experts. It will require much more of an orientation toward routine service delivery rather than infrastructure planning. It will entail new models of cost recovery and financial management (although the underlying principles will remain the same). At the same time, the AID urban experts have considerable experience in community development, participatory planning and the “softer” community oriented sides of urban service delivery, so there is a sound base to build upon.

### **2.3 Location and Management of Staff Resources**

Given the state of urbanization across the Near East and Asia, urban development and governance will continue to be a prime programming target for AID in the region. The urban staff members within AID have been able to adapt to an expanding scope of issues over the past decade but are currently stretched thin if new opportunities are to be met. First, staff resources will need to be substantially augmented if **urban governance** is to become a primary target for Near East AID Missions. Second, staff resources will also need to be augmented if **urban policy in general** becomes a more central focus of urban development/governance programming for ANE.

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<sup>10</sup> This type of cross-sectoral programming is not an entirely new idea for AID. For example, in Uganda, AID is attempting to build on lessons learned in its successful local government training program as it recasts the Mission’s health and education programs to become a combined social sector decentralization support program. Clearly, such an effort can only work if the knowledge about local capacity building can be incorporated into the sectoral decentralization approaches.

Dealing with the issue of “urban impact sectoral” programs requires more than staffing augmentation. It requires some new approaches to analysis and program design that cross traditional bureaucratic boundaries. Some efforts are already underway in the health sector, as previously noted, that may test the readiness to engage in such analysis in other sectors. In addition, the “making cities work” approach has already identified many points of cross-sectoral cooperation. Beyond that, we suggest that a more concerted effort should be made to target some of the critical interactions of sectoral programs and urban governance. For example, in several of the Asian countries, there are movements underway in **social sector decentralization** that will transfer health and education services to local governments. This is a natural target area for AID programming in such countries as Indonesia. By the same token, **urban poverty alleviation** and **natural disaster mitigation** are cross-cutting areas where AID already has experience and staff competencies that could be brought together to focus specifically on the urban governance and sectoral interactions.

These staffing issues have a significant question of location. Clearly, design and management of projects is a country-specific endeavor. The ANE RUDOs, as a group, have focused increasingly on project design and management in the countries where they reside, although some regional functions are still maintained. The real question is whether there are **regional** functions that require a separate regional presence (or cannot be managed and supported out of Washington). Under current programming trends, there would appear to be no need to create separate regional presences in the Near East and Asia. This could well change if a major program were established to support urban governance in the Near East. But, for the present, no such need exists.

There are several functions that need strengthening at the central level. First, the ANE Bureau or UP will likely have to take the lead in developing cross-cutting approaches to deal with the sectoral-urban governance interfaces. We note that there has been very little experience with this specifically in the ANE portfolio. Where it has been – or is being attempted – in other parts of AID, the design process has usually not run smoothly. And, since there has been some work in other regional bureaus, AID in Washington is best placed to investigate that experience and make it transferable to its Missions. This would argue for adding technical resources within SPOTS and/or expanding UP’s technical resources that are available to ANE on a dedicated basis.

A second area where central resources need to be expanded is in the field of urban policy development. More attention must be paid to urban policy if AID decides to capitalize on its experience in several key Asian countries and in some other Missions to establish this as a programmatic thrust in ANE.

Some of the key areas for research and policy development that will be of immediate interest and use to a number of ANE missions include those referred to above, social sector decentralization, urban poverty alleviation, and natural disaster mitigation. In addition, it is important that the research now being undertaken on urban health issues be replicated for the water sector. Experiences in Egypt, Jordan, and other Near East countries should be documented and lessons learned should be made available in a useful form to other missions. The Philippines experience with decentralization and its subsequent diffusion to sectoral programs in the mission also needs to be closely followed. Finally, the relationships between agricultural development and the growth of market and other towns needs to be distilled and publicized. There is already a rich

literature on market town development that needs to be better known in AID. The relationship between urban governance and job creation also needs to be explored and made known to missions. The phenomenon that we referred to early as extended urban areas also needs to be researched and understood for its continuing impact on governance and economic development. Of course, there are clear implications for central resources if this kind of research and policy development is to be pursued, which we believe it should.

### 3. Recommendations for Management Responsibility and Staffing

Increased urbanization in the ANE region has brought the consequences and opportunities set forth above, and has led to an evolving AID response that generally falls within two broad categories – sectoral programs that impact significantly in urban areas and broader urban development/local governance programs. We have also examined above the management and staffing consequences of this, and we have drawn tentative conclusions concerning potential directions that ANE might pursue.

In the sections below, we make recommendations concerning the framework that the ANE Bureau should seek to build upon in its response to urbanization. Given the “what” of this framework, we then provide more substantive recommendations as well as the “how” to build this framework, i.e. the management role of the Bureau in responding to the challenges of urbanization. Finally, we examine the staffing implications of our conclusions.

#### 3.1 Framework for Managing Urban Programmatic Response

The central question facing the ANE Bureau is what kind of management and intellectual framework it should seek to foster in the face of the urbanization that is taking place, the trends in responses that we have seen, and a careful assessment of its importance and level of priority among a myriad of competing interests. Our conclusion is that urbanization is one of those facts of life that cannot be ignored and that needs to be factored into the fabric of a country’s and Mission’s deliberations and consciousness. It is not, however, something for which, *a priori*, special programs are needed across the board. Depending on the country, urbanization will assume greater or lesser importance and, consequently, it will make more or less sense to dedicate resources to responses that incorporate a basic awareness of urban concerns. Underlying this should be the realization by the ANE Bureau that economic development is increasingly going to take place in urban areas and that there is a need for responsible management decisions that enable this to happen. This will mean that Missions will need to understand what the issues are and what might enable their sectoral and broader programs to perform better in urban areas.

We therefore believe helping Missions decide what they should be doing to address urbanization is the most appropriate role for that the ANE Bureau.

The ANE Bureau’s effort to influence and capitalize on the urbanization phenomenon will require an understanding of what urbanization consists of. The Bureau will also need to encourage Missions to confront this challenge intellectually. It also means realizing the implications of undertaking sectoral programs in urban areas, providing leadership and technical support, and ensuring that appropriate research is carried out that will provide Missions with pertinent information and guidance.

The ways that this can best be realized revolve around the concept of **mainstreaming** urban issues and activities within the ANE Bureau. This is the key to evolving a coherent response that will respond to the background set forth above in Section One above and the management and staffing issues detailed above in Section Two. Without a conscious effort to mainstream urban



issues and activities, there is much less chance that the ANE Bureau will be able to capitalize on the opportunities that urbanization presents.

### **3.2 Management Roles**

The following recommendations are made in support of mainstreaming urban in the ANE Bureau. Suggestions are also made for Missions in the region.

*For ANE:*

**Leadership** is crucial if urban issues are to be mainstreamed in the ANE Bureau and if there is going to be a change in the way that ANE does business concerning urban issues. This means that the AA, DAAs, and the next level of leadership need to be, and to be seen to be, committed to the idea that urbanization in ANE countries is an important phenomenon that must be reflected in the intellectual underpinnings of what Missions are seeking to do. Public statements, strategic guidance, and incentives to Mission directors to incorporate an urban dimension in their planning and in their activities are needed.

**The ANE Bureau should establish a policy review and research mechanism** to address the issues that have been raised concerning opportunities for urban policy support, local capacity building, and ways to enhance the impacts of sectoral programs. We believe that in a number of countries in the region, the traditional focus on urban infrastructure finance could be usefully expanded. In collaboration with other central offices, particularly UP, this mechanism could become a leading edge for assisting Missions in coping with urbanization issues. Some of the possible subjects for research and policy development are sketched out in section 2.3 above.

**Strategic planning guidance to Missions** is especially important. A number of Missions are in the process of reviewing their strategies in one way or another. Urban issues are already important in most of the countries in the region. Guidance should focus on ensuring that Missions understand the urbanization processes that are underway, assessing whether wider policy work is needed, and understanding how Mission sectoral programs are impacting in urban areas, and examining the costs and benefits of local capacity building.

Over the next five years, the **ANE Bureau should strive to move Missions** to the point that they are comfortable that they have an understanding of what the major urban issues are in their countries, how the countries are responding to those issues, and whether the responses are sensible and reasonable. The Missions' major emphasis should be on understanding how urbanization is affecting the achievement of their development goals, whether this be in sectoral programs that have significant impact in urban areas, or on a broader scale, in terms of policy support work.

There is a need for **greater prominence in the strategy documents** produced by ANE of the urbanization phenomenon and the urban issues facing the sub-regions. These have been documented to a certain extent by this report, but now need to be incorporated into official documents, strategy papers, and Web site material for the ANE Bureau.

**Additional resources for urban activities** are important. It is recommended that the ANE Bureau explore the use of the DCA for urban activities. A structured approach, involving the

Office of Development Credit (ODC), UP, and the ANE Bureau could be highly productive. ODC has the tool of credit, UP has the urban expertise and knowledge of putting together urban credit programs, and ANE and its Missions and RUDOs have the country and regional knowledge. We have mentioned the importance that other donors are beginning to accord urban issues. The multi-lateral development banks have considerable resources and increased collaboration would be one way to capitalize on the comparative advantages that AID possesses in many of the region's countries.

It is also recommended that the ANE Bureau explore potential **collaboration with UP and Missions**, in developing incentives for Missions interested in adding an urban dimension to their programs. Providing resources to Missions that are also willing to devote some of their resources can be an effective way to begin to move Missions along the path from research to substantial involvement in the urban arena.

For mainstreaming of urban to begin to become real, it is important that there be established a **regular training program on urban issues** for ANE officers. This can take place on a number of different levels. The most ideal and most effective would be Mission focused, in which a Mission that is interested in urbanization devotes time and resources to training its various teams in what urbanization means for their particular interests and what might be next steps. A broader effort is also worthwhile. Thus, at gatherings in the regions or in Washington, training on urban issues should also be an integral part of other proceedings.

*For Missions:*

Many of the recommendations for the ANE Bureau above have a complementary aspect for the Missions in the region. Therefore, these are not repeated here. We do believe, however, that Missions could well carry out the following three recommendations in the absence of any particular action by the ANE Bureau.

**Better understanding of urbanization** – Most of the countries in the region would benefit through the development of a better understanding of the urbanization process that is taking place, including how it is affecting each of their development goals.

**Influence the key people and organizations concerned with urban issues** – There is ample opportunity for greater contact between AID Missions and the people and organizations that are managing the urbanization process or have an influence on this process. Becoming more inclusive in on-going Mission programs that are intended to influence the futures of other sectors would be highly beneficial.

**Build regional networks** - There is a gap in the sharing of information and models concerning urban issues among the countries in the region. The RUDOs in the region have tried to bridge this gap, but their efforts have been relatively modest. In particular, in the 1990s, the Near East North Africa Forum was launched and is still functioning. The Forum is headquartered in Istanbul and, with a small amount of assistance, could expand its role.

### **The Near East North Africa Urban Forum**

The Near East North Africa Urban Forum was created to promote sustainable human development in urban settlements. The forum plays three roles: First, it identifies key urban challenges in the region and defines an agenda for the region; second, it assists members in conceiving and promoting solutions and improved urban policies; and third, it serves as a mechanism for sharing experiences.

Membership includes individuals and organizations from most Middle East and North African countries. It is currently headquartered in Istanbul, Turkey, and receives support from the Urban Management Program of the United Nations Centre for Human Settlements (Habitat) and the World Bank, located in Cairo. RUDO assisted the forum's birth in the 1990s.

One of the key activities of the forum is to promote the identification and dissemination of innovative practices in urban management and governance. It carries this out through a variety of means, including exchange of information between members, dissemination of best practices, institutional exchanges, and the organization of high profile workshops and conferences.

### **3.3 Staffing Requirements**

We indicated above that in order to for AID to make a real difference in urban issues, it would need more staff depth in the area of urban policy analysis, and would need to be willing to make a long-term commitment of staff resources in target countries.

To a great extent, specific staffing requirements depend, of course, upon the eventual decisions by ANE Bureau management concerning this assessment's recommendations for mainstreaming and to its commitment to these decisions, as well as the normal fiscal constraints that are ever-present. However, we do not believe that substantial additional ANE Bureau staff resources are needed to make a modest beginning. Collaboration with other central offices will help greatly in this effort.

The assessment's specific recommendation is to have an **"urban" person within the SPOTS division** with a broad mandate for initiating the urban policy review mechanism, research, and technical support for the ANE Bureau's urban programs, to assist country programs to adapt to the urban transition and issues facing their countries, and with directions to collaborate with other specialists within SPOTS to promote greater recognition of the urbanization that is taking place. Of course, one of the primary duties will be to collaborate closely with the UP. This should be backstopped by some contractor support accessible through SUM IQCs, and other

resources like EPIQ having capability in urban governance fields. This new urban person should also have the mandate to work closely with USAEP to more closely integrate its urban activities into the broader strategic designs that will be emerging at the country level.

We believe that **the approach adopted by SPOTS will make a difference in mainstreaming urban** within the ANE Bureau. The Women in Development (WID) experience is instructive. Having a specific partner within the regional bureaus has been helpful in some instances to the WID program. The key appears to have been working in small groups with people who are interested in the subject and in having a more indirect approach. While having someone specifically responsible for urban issues within the ANE Bureau is a prerequisite, that person needs to have a wider field of concern than direct urban development. Rather, there also needs to be a focus on helping ANE Bureau and Missions activities concerning health, economic growth, decentralization and governance, and others to recognize the urban dimensions and issues involved in their programs and help to devise ways and means to make them more effective and relevant in the ANE context.

With regard to **staffing for urban issues in the field**, we believe that the current staffing levels, while inadequate, are sufficient until there is increased demand from the field for urban expertise, generated by the evolving mainstreaming exercises. We do, however, recommend that there the urban officer currently serving in Rabat be redeployed to a more central location in the Near East as early as is convenient. ANE RUDOs have now become part and parcel of their respective Missions. Nevertheless, they should continue to have regional links, to maintain a technical home with UP, and to provide support in their regions on urban issues as required. They should also be responsible for helping to reinforce the urban networks referred to above.

This does not, however, begin to address the overall needs of the region. We believe that an optimum configuration over the next five years would see two to three persons in the Near East (one or two in either Egypt or Jordan and one in Morocco) and six persons in Asia. Optimum staffing levels are therefore eight to nine persons, three to four above the current complement.

**ANNEX A****Management Assessment of Urban Programs for  
Bureau for Asia and the Near East****COUNTRY PROFILES: ASIA****A. The Region****1. Urbanization and Development in Asia**

Third World Asia's urban population is projected to grow at 3.2 percent annually through 2015 and 2.6 percent annually to 2030, reaching 49.3 percent. Rural population will grow at 0.2 through 2015 and then decline by 0.4 percent annually through 2030. There are wide variations in the projected magnitudes of urban population within total national populations (Table 5, below), and different opinions about the relative importance of these projections. Nevertheless, the general patterns should be taken seriously, and they are instructive.

**Table 5. Third World Asia Urban Population Projected 2030  
In Rank Order**

<b>Rank:</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
	Mongol.	Philip.	Indon.	Pak.	China	Myan.	India	B'desh.	Laos
Urban Pop. (millions)	3	84	180	157	760	28	633	82	5
% of Total	76.0	73.8	63.5	55.9	50.5	46.6	45.8	43.8	42.6

<b>Rank:</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>
	Sri L.	Maldiv.	Afgan.	Thai	Vietn.	Camb.	Nepal	Bhutan.	E.Tim
Urban Pop. (millions)	10	0.22	20	29	38	5	11	0.77	0.19
% of Total	41.9	41.3	39.9	39.1	33.7	31.9	26.4	17.9	15.0

With the exception of Mongolia and Myanmar, the largest countries tend to project greater degrees of urbanization, with those in Southeast Asia considerably higher than those in South Asia. China is expected to reach 50 percent by 2030. (China has recognized this inevitable transition, incidentally, and plans for and encourages it as an economic growth strategy element.) Nine of the 10 mega-cities (10 million +) in ANE will be in Asia. Two South Asian cities (Mumbai and Dhaka) are projected to exceed 20 million, with Karachi, Calcutta and Jakarta close behind. Regardless of the differing patterns of urban population distribution among cities of different sizes in a given

country, clearly the Philippines, Indonesia, Pakistan, India and Bangladesh face major challenges of managing urban services and providing employment for urban populations, especially in mega-cities.

Many of those challenges are already apparent within the region. Urban poverty tends to increase with urban population growth in the short, even medium term, as rural poverty heads to cities and peri-urban extended urban regions. Urban poverty is often more harsh and extreme than rural poverty and is widespread in Asia, especially South Asia. The Asian Development Bank's *Urban Sector Strategy* (July, 1999) notes that low income is not the only concern: urban poverty involves "poor health and education, deprivation in knowledge and communications, inability to exercise human and political rights, and low self-esteem."<sup>1</sup> Ill-health due to urban service deficit and/or income deficiency is heightened in Asian cities by environmental mismanagement. According to the World Health Organization (WHO), Bangladesh, India, Indonesia and Nepal accounted for about 40 percent of the global mortality in young children caused by pneumonia induced by air pollution.<sup>2</sup> Levels in the region's large cities are among the highest in the world. In most of Asia's mega-cities, air pollution levels exceed WHO guidelines by wide margins. The ADB has joined the World Bank in recognizing the need to address rapid massive urbanization in Asia, and do so with infrastructure, social and economic development projects and a strengthened concern for urban governance. The situation is summed up concisely by the ADB's urban strategy:

At the macro level, urbanization is strongly linked to economic growth, and [it]has contributed positively to the gains made in many countries throughout the region... At the same time, urban areas are exposed to external factors over which they have little control, such as the progressive globalization of decision-making and the economic crisis currently affecting the region. The phenomenal rate at which urbanization is occurring has over whelmed those tasked with managing urban areas, particularly in the poorer countries of the region. Exacerbated by a flood of rural-urban migrants, cities have witnessed tremendous growth of unserviced slum and squatter areas where millions of urban poor residents lack adequate access to potable water and sanitation services.... Potential improvements in the provision and maintenance of urban infrastructure and services are constrained by poor urban governance, management, and finance. Outdated legal, institutional, and governance traditions, as well as inadequate reform measures have constrained the pace of development.<sup>3</sup>

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<sup>1</sup> Asian Development Bank. *Urban Sector Strategy*, 1999, p. 9.

<sup>2</sup> WHO, 1993 figures.

<sup>3</sup> ADB, *op cit*, p. 1.

Table 6. **THIRD WORLD ASIA TOTAL AND URBAN POPULATION\***

	Total Population (millions)			Annual Growth (%)		Urban Population (millions)						% Annual Growth Rate			
	2000	2015	2030	2000-2015	2015-2030	2000	% Urban	2015	% Urban	2030	% Urban	Urban 2000-2015	Urban 2015-2030	Rural 2000-2015	Rural 2015-2030
<b>Third World Asia</b>	3,148	3,709	4,150	1.2	0.8	986	31.3	1,474	39.8	2,045	49.3	3.2	2.6	0.2	-0.4
<b>AID Asia Countries</b>	1,569	1,891	2,165	1.4	1.1	478	30.5	735	38.9	1,046	48.3	3.8	2.8	0.4	-0.2
<b>South Asia</b>	1,413	1,744	2,028	1.6	1.0	403	28.5	638	36.6	941	46.4	3.9	3.2	0.5	-0.2
India	1,014	1,212	1,383	1.2	0.9	288	28.4	435	35.9	633	45.8	2.7	2.5	0.5	-0.2
Bangladesh	129	162	187	1.5	1.0	32	24.5	55	33.3	82	43.8	3.7	2.7	0.6	-0.1
Nepal	24	33	40	2.1	1.4	3	11.9	6	18.1	11	26.4	4.9	3.9	1.6	0.7
Sri Lanka	19	22	24	1.0	0.7	4	23.6	7	32.0	10	41.9	3.1	2.5	0.2	-0.4
Sub-Total	1,186	1,429	1,634	1.4	0.9	327	27.6	503	35.2	736	45.0	3.6	3.1	0.5	-0.2
<i>Pakistan**</i>	157	223	280	2.3	1.5	58	37	104	46.7	157	55.9	3.9	2.7	1.2	0.3
<i>Afghanistan</i>	23	37	50	3.2	1.9	5	21.9	11	30.1	20	39.9	5.3	3.8	2.5	0.9
<i>Myanmar</i>	46	54	60	1.1	0.8	13	27.7	20	36.7	28	46.6	3.0	2.4	0.2	-0.4
<i>Bhutan</i>	2	3	4	2.5	2.2	(.152)	7.4	(0.36)	11.6	(0.77)	17.9	5.8	5.1	2.2	1.7
<i>Maldives</i>	(0.3)	(0.4)	(0.5)	2.6	1.6	(.075)	26.1	(0.13)	31.5	(0.22)	41.3	3.8	3.5	2.1	0.6
<b>East Asia</b>	1,735	1,965	2,122	0.9	0.5	582	33.6	837	42.6	1,104	52.0	2.9	2.1	-0.2	-0.6
Indonesia	212	250	284	1.5	0.8	87	40.9	137	54.8	180	63.5	3.1	1.8	-0.7	-0.6
Philippines	76	97	114	2.1	1.1	44	58.6	66	67.8	84	73.8	2.6	1.7	-0.1	-0.3
Cambodia	12	14	17	1.0	1.3	2	15.9	3	22.8	5	31.9	4.1	3.5	1.1	0.4
Mongolia	3	4	4	1.5	1.1	2	63.5	2	70.5	3	76.0	2.1	1.6	0.0	-0.3
Vietnam	80	97	112	2.1	1.0	16	19.7	24	24.3	38	33.7	2.7	3.2	0.9	0.2
Sub-Total	383	462	531	1.4	1.0	151	39.3	232	50.2	310	58.4	3.6	2.2	-0.1	-0.2
<i>Thailand</i>	61	69	74	0.8	0.5	13	21.6	21	29.3	29	39.1	2.8	2.4	0.1	-0.5
<i>Laos</i>	5	15	11	2.4	1.9	1	23.5	3	32.7	5	42.6	4.7	3.7	1.6	0.9
<i>East Timor</i>	1	1	1	1.3	0.8	(.066)	7.5	(0.1)	9.5	(0.19)	15.0	3.0	3.9	1.2	0.4
<i>China (incl HK, Mac.)</i>	1,285	1,425	1,504	0.7	0.4	417	32.5	585	41.0	760	50.5	2.3	1.8	-0.2	-0.8
<b>World</b>	6,055	7,154	8,112	1.1	0.8	2,845	47	3,817	53.4	4,884	60.3	2.0	1.7	0.3	-0.2
<b>First World</b>	1,188	1,214	1,210	0.1	0.0	903	76	968	79.7	1,010	83.5	2.0	1.7	-1.0	-1.4
<b>Third World</b>	4,867	5,940	6,903	1.3	1.0	1,942	39.9	2,849	48	3,880	56.2	2.6	2.1	0.4	-0.2

\*UN Centre for Human Settlements. *Cities in A Globalizing World: Global Report on Human Settlements, 2001*. London: Earthscan, 2001; 1998 and 1999 UN Prospects revisions.

\*\* Italicized countries are not major current Third World AID recipients.

## 2. The AID Response

AID's programs in Asia are conceived and managed largely at the national scale and are described in detail in II.B and II.C, below. The central AID Urban Programs Office through RUDOs in India and Indonesia manages elements of those programs. The ANE Bureau has several regional projects treating trans-national problems, with impact in selected countries. The USAEP separately provides selected assistance through partnerships throughout Asia. Other central sectoral offices provide assistance to country programs as well. Salient urban features of these efforts are outlined below.

We may broadly group AID program into two categories with respect to urban impacts:

- (a) Those projects aimed specifically at urban governance or infrastructure/services improvement; and
- (b) Those projects with a sectoral focus (including multi-country ones) that have a large impact on urban populations.

The urban governance/development projects have typically been either managed by, or greatly assisted by, the RUDOs while the sectoral programs have been largely developed and managed with little RUDO involvement.

The following summarizes the roles of the main AID actors in both the urban governance/development programs and the urban-related sector programs in the main Asia Missions visited in this study:

- a. RUDOs are backstopped with operational budget and IQC support by the Office of Urban Programs (UP) in the Center for the Environment. There are six Sustainable Urban Management (SUM) IQCs with a U.S. \$110 million total ceiling through 2004, and SUM II is intended to start in 2003. UP has reported on results under Strategic Objective [SO] 2 of this Center in the Global Bureau – results wholly attributed to field RUDO efforts, almost all of which, for Asia, were in India and Indonesia; and likewise reported by those missions under their SOs. RUDOs have provided modest assistance beyond their home countries, but not generally aligned with a regional strategy or plan.

While the Center's R4, report, including the Performance Data and Value Added Results Tables, provides little information on Asian RUDO activity outside of India and Indonesia, it is known that in recent years the South Asia (SA) RUDO: (i) supported community waste management in Bangladesh with a workshop, and supported environmental mapping in Kulna and Dhaka; (ii) collaborated with the central Environmental Health project to introduce health risk assessment studies in cities elsewhere in South Asia; and (iii) assisted accounting procedures in the Kathmandu Municipal Corporation, and supported environmental risk assessment in one urban area. RUDO/SA also manages a residual investment guarantee program for community-based urban environmental infrastructure projects in Sri Lanka, which moves small amounts of money and will end next year. The Columbo Municipal



Council recently used an UP IQC to produce a solid waste management plan. RUDO SA is considering South Asia regional activities in urban climate change and local governance.

It appears that RUDO/Southeast Asia (SEA) has had limited involvement in regional activity outside of Indonesia, with the exception of Vietnam, which has a resources cities arrangement (Haiphong-Seattle). There has been some joint activity with USAEP in the Philippines, Thailand, and Vietnam.

b. Urban health is a serious concern of the ANE Bureau. ANE recognizes that “poverty remains the significant predictor of urban morbidity and mortality, and available studies lead to the recognition that in many countries, the urban poor have the worst health status – even worse than their rural poor counterparts.... The sheer magnitude of population numbers in the region, especially in South Asia, means that poor health among the urban poor in the region comprise[s] a significant proportion of global mortality and morbidity. A study is being conducted for ANE SPOTS in cooperation with the Center for Population, Health and Nutrition\*. The study is intended to document the degree and character of urban ill-health with the expectation that strategies to address urban health concerns will become more explicitly and centrally placed in country health programs.

c. Transnational problems treated by ANE regional projects touch on urban issues in the cases of Regional HIV/AIDS and Asia Infectious Diseases projects, which support disease surveillance and analysis of international disease vectors involving cities. The South Asia Regional Initiative (SARI)/Women’s and Children’s Equity project treats the primarily urban phenomenon of trafficking. The South Asia Democracy project, , stresses elections and democratic reforms, human rights and civil society without much attention specifically to local government reform; the exception here has been support to Nepal’s decentralization agenda.

d. USAEP has strong urban content in its partnership programs that promote environmental management systems and strengthen and expand incentives and public policies for environmental quality. It has been especially effective in promoting environmental standards and enabling urban environmental improvements, including better quality of water supply and air. It is arguably the current premier AID instrument for assisting urban development on a region-wide basis in Asia. It has a U.S. \$16 million annual budget and has contractor staff based in 11 countries. The focus is on India, Thailand, Indonesia and the Philippines, but the program also serves Korea, Singapore, Malaysia, Taiwan, Vietnam, Hong Kong, Sri Lanka, Nepal and Bangladesh. However, it is difficult to treat these activities as a coherent whole that can be assessed as to impact or longer-term utility at a regional or country scale. These achievements are not matched to AID’s country strategies in most cases. (An urban strategy in Thailand is the exception).

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\* Central Bureaus of AID were reorganized in late FY 2001 and some regional projects may move to new central bureaus. The designations of Global Bureau Centers and ANE Regional project from before are used here.

USAEP's overriding purpose of promoting environmental technology transfer and US exports is perhaps the reason why it does not appear to articulate in its documents and programs a strategic vision for Asia and the environmental problems it addresses, including urban environmental problems. Its urban strategy developed in FY2000 has three components (policy dialogue and networking/outreach, urban management and finance, and urban services and environmental policy) but seems to lack a clearly articulated exposition of the connections of actions to intended larger results (sustained impact on key drivers of an Asian clean revolution) or the higher goal (that clean revolution)—except that numbers of inputs and outputs count. (It is also confusing that on occasion RUDOs and USAEP both count the same activities and results in their reporting.

Nevertheless, some actions have been impressive. For example, USAEP worked with 125 municipalities in nine Asian countries in FY2000 and 214 in FY2001. FY2001 mid-year performance data indicate that USAEP assisted 21 Indian and 13 Filipino municipalities with solid waste management and 36 Indonesian local water districts with clean water distribution. USAEP's successful unleaded gasoline campaign has involved close collaboration with U.S. TDA, ADB and World Bank, among others. Leaded gasoline was phased out in Metro Manila in 1999; Vietnam decreed the phase-out of leaded gasoline by July, 2001; and the same was directed for the greater Jakarta metropolitan region (population 23 million).

e. The Center for Environment, as formerly constituted, contained the Environment, Energy and UP offices. Central environment programs touched urbanization recently in three minor activities: (i) the Climate Change Awareness program engaged 56 Indian industrialists in an assessment focusing on becoming more energy efficient; (ii) the Coastal Resources Management program assisted Lampung Province in Indonesia, with development of a coastal strategic plan; and, most important, (iii) the water team assisted USAID-India to develop thinking on program linkages across the energy, water, urban and health sectors. This cross-sector thinking has evolved into an important mission concept: the energy/water nexus in urban areas could provide significant inter-sectoral cooperation in certain AID initiative cities.

Energy programs have recently touched the Philippines, Bangladesh, Thailand, and, most significantly, India. In India, the Moving Markets for Energy Efficiency program assisted with the drafting and review of legislation creating the National Energy Efficiency Board. The Indore Municipal Corporation has adopted and implemented policy to measure energy usage and implement cost effective energy efficiency actions. The Clean Energy program supports zero emissions transportation development is facilitating the production and widespread adoption of electric driven scooters and auto-rickshaws in the Indian marketplace and increased awareness and understanding of such technological alternatives to conventional heavy vehicle polluting vehicles. The Urban Pollution Reduction program has recently moved to the Energy from the Urban Programs office, the purpose being to reduce greenhouse gas emissions and urban pollution through the use of environmental management tools. It has yet to come to Asia, but efforts of the Energy office have helped to reduce

greenhouse gas emissions in the Third World significantly – by 395,531 tons alone from emission-free grid-connected systems in eight countries, including India, Indonesia, Nepal and the Philippines. The Manila Electric Power Company has been assisted to prepare for restructuring and privatization lending, it is hoped, to support energy efficiency and cleaner energy production in the future. Likewise, the Bangladesh Power Development Board was trained to increase efficiency, restructure and integrate environmental issues into operations.

f. The Center for Economic Growth and Agriculture takes it as a given that “agricultural development is the engine for economic growth in many countries.” It supports microfinance development, including efforts through the Development Credit Authority (DCA) and its loan portfolio guarantee mechanism. DCA can also support access to credit for sub-sovereign entities, such as municipalities.

g. The Center for Democracy and Governance has one program element both germane and important to urban challenges in Asia: “National and local government institutions more openly and effectively perform public responsibilities.” Through this vehicle corruption assessments have been conducted in Indonesia, the Philippines and Thailand. An anti-corruption forum was conducted in Manila. More to the point, its second of five foci is “encouraging centralized regimes to devolve genuine authority for decision-making to local governments and assisting local governments to be more participatory, responsive and effective.” This focus reflects the important decentralization program objectives evolving in several of AID’s Asian programs. This has potential, and a small beginning has been made in Bangladesh.

## **B. South Asia Sub-Region**

### **1. India**

India presents a compelling developmental challenge. The country has made enormous progress in its more than 50 years of independence. Nevertheless, India continues to have the highest concentration of poverty in the world. Because of its huge population, this translates into more than 360 million people living below the official poverty line.

India’s development challenges, according to the World Bank, include health and nutrition needs, expanding access to education, furthering fiscal reform, promoting the private sector, the provision of infrastructure and municipal services, accelerating rural development, and protecting the environment – in other words, the entire gamut of development needs.

India is also the world’s largest democracy. However, decentralization of responsibilities to the state and local levels has been relatively recent. Urban areas constitute only about 25 percent of India’s total population, but urban population is growing rapidly and is expected to be around 45 percent of the total by 2030. The fact of matter is that the economic future of India lies increasingly in urban areas. Unfortunately, cities are not

ready to assume this responsibility and this is likely to hamper the country in reaching its full potential.

## a. Dimensions and Characteristics of Urbanization

### i. Demographics

#### (a) Population

The scale and rate of urban growth in India are overwhelming the country's physical, social and economic systems. According to the 2001 Census of India, 27.28 percent of India's total population of 1.03 billion, or 285,354,954 people, are living in urban areas.<sup>4</sup> This urban population is larger than the total population of most countries. Most projections have India at or beyond 50 percent urbanized by 2025. The urban population growth projections by United Nations World Urbanization Prospects (which tend to be more conservative) show a slightly higher urban percentage in 2000 than the 2001 Census of India with projections somewhat under 50 percent urban by 2030:

<b>Table 7: Urban Population of India, 2000-2030</b>			
<b>Year</b>	<b>Total Population (Millions)</b>	<b>Urban Population (Millions)</b>	<b>Percent Urban</b>
<b>2000</b>	1,014	288	28.4
<b>2015</b>	1,212	435	35.9
<b>2030</b>	1,383	633	45.8

Source: UN World Urbanization Prospects, 1999 Revision

Urban population in India is growing at a rate almost twice that of rural India. The decadal urban growth 1991-2001, registered by the 2001 Census of India, was 31.2 percent, compared with rural growth of 17.9 percent. UN figures project India's urban growth rate to be four to five times that of rural growth in the coming 30 years, with only a modest decline in the outer years (Table 8).

<b>Table 8: Total, Urban and Rural Population Projections for India, 2000-2030 (% Annual Growth)</b>						
<b>India</b>	<b>Total Population</b>		<b>Urban Population</b>		<b>Rural Population</b>	
	<b>2000-2015</b>	<b>2015-2030</b>	<b>2000-2015</b>	<b>2015-2030</b>	<b>2000-2015</b>	<b>2015-2030</b>
<b>Third World Asia</b>	1.2	0.8	3.2	2.6	0.2	-0.4
<b>AID Asia Countries</b>	1.4	1.1	3.8	2.8	0.4	-0.2
<b>South Asia</b>	1.6	1.0	3.9	3.2	0.5	-0.2
<b>India</b>	1.2	0.9	2.7	2.5	0.5	-0.2

Source: UN World Urbanization Prospects, 1999 Revision

The level and geographic distribution of urbanization are highly variable among India's 28 States and seven Union Territories. The 2001 census shows the highest levels of

<sup>4</sup> Press Note, Office of the Registrar General, India, 20 July 2001.

urbanization to be in three city states: National Capital Territory of Delhi, 93.1 percent; Chandigarh, 89.78 percent; and Pondicherry, 66.57 percent. The three are home to 14.28 million, of which 12.82 million are in the mega-city of Delhi. While the national urbanization level is at 27.28 percent, 11 States, mostly the southern and central States, have experienced a much higher pace of urbanization. Current urban population levels range from 42 percent to almost 50 percent urban in Goa, Mizoram, Tamil Nadu and Maharashtra. In terms of absolute population numbers in urban areas, the leading States are Maharashtra, 41 million; Uttar Pradesh, 35 million; and Tamil Nadu, 27 million. A second group of more highly urbanized states with 29 percent to 37 percent urbanized populations includes Gujarat, Karnataka, Punjab, and Haryana.<sup>5</sup>

**Table 9: Leading Urbanized States in India, 2001**

	State (including city states)	Urbanization Level (% )	Urban Population (millions)
	<b>City States</b>		
1.	Delhi	93.01	12.82
2.	Chandigarh	89.78	00.81
3.	Pondicherry	66.57	00.65
	<b>States</b>		
4.	Goa	49.77	00.67
5.	Mizoram	49.50	00.44
6.	Tamil Nadu	43.86	27.24
7.	Maharashtra	42.40	41.20
8.	Gujarat	37.35	18.90
9.	Karnataka	33.98	17.92
10.	Punjab	33.95	8.25
11.	Haryana	29.00	6.11
12.	West Bengal	28.03	22.49
13.	Andhra Pradesh	27.08	20.50
	<b>TOTAL</b>		179.82

Source: Census of India, 2001

### (b) City size and numbers

India has 3,586 urban local bodies with 95 city corporations, the largest cities; 436 municipal councils; and 2,055 nagar panchayats. As of 2001, there were 35 cities with more than 1 million in population, up from 12 in 1981; an estimated 65 cities of 500,000; and more than 425 cities of 100,000 or more in population. Some 38 percent of the total urban population (108 million people) live in the 35 largest cities. Urban population growth has been concentrated in cities of 100,000 or larger. This is where at least 65 percent of the urban population lives.

As of the 2001 census analysis, the ranks of India mega-cities, having more than 10 million, include Greater Mumbai (Bombay), 16.3 million; Kolkata (Calcutta), 13.2 million; and Delhi, 12.7 million. By 2025, it is estimated that four more cities ((Chennai (Madras), Bangalore, Hyderabad and Ahmedabad)) will join these ranks. The UN statistics, though varying some from the census statistics, show that the growth rates of

<sup>5</sup> Census of India, 2001 Rural-Urban Distribution of Population- India and States/Union Territories, 2001

the larger cities is waning but is nonetheless leaving them with enormous absolute numbers of residents. Rapid growth continues in smaller cities.

<b>Table 10: Major Cities of India, Population and Growth Rates 1985-2015</b>						
<b>City</b>	<b>Population (thousands)</b>			<b>Annual Growth Rate (%)</b>		
	<b>1985</b>	<b>2000</b>	<b>2015</b>	<b>1985-1995</b>	<b>1995-2005</b>	<b>2005-2015</b>
<b>Mumbai</b>	9,907	18,066	26,138	4.2	3.2	2.2
<b>Kolkata</b>	9,946	12,918	17,252	1.8	1.7	2.0
<b>Delhi</b>	6,770	11,695	16,808	3.9	3.0	2.2
<b>Hyderabad</b>	3,216	6,842	10,457	5.3	4.0	2.5
<b>Chennai</b>	4,748	6,648	9,145	2.3	2.1	2.1

Source: UN World Urbanization Prospects, 1999 Revision

### **(c) Significant characteristics of urbanization in India**

#### **(1) Migration**

At the national level, rural-to-urban migration accounts for only one third of urban growth and is not a new phenomenon. Migration from the poorest regions of northeast India (such as Bihar) is historical and has been recorded as far back as the eighteenth century. According to De Haan (1994, 1997b), “development in areas of origin usually goes hand in hand with migration so that expectation that rural development will decrease out migration may be unjustified.” The characteristics of migration flows are more a factor of context and differ from State to State – the landless migrate from Bihar, middle peasantry migrate from Kerala, and landed groups migrate from Uttar Pradesh. Gender and caste composition depend more on the supply and demand of the labor market. Finally, it is reported in the research that migrants do not come equally from all areas. Migration streams are strongly segmented. The flows from a rural area increase and ‘mature’ as a nucleus of migrants from that area become anchored in an urban area.<sup>6</sup> There is also urban-to-urban migration in India that is thought to be larger than rural-to-urban migration.

#### **(2) Urban agglomerations**

In the 1971 census, the GOI introduced the concept of urban agglomeration, referring to a continuous urban spread and normally consisting of a town and its adjoining urban outgrowths. Today, urban India is characterized by a large number of urban agglomerations that include a number of separate municipal entities. Of the 35 cities with more than 1 million population, most are ‘multi-cities’ that envelop many rural centers on the outskirts. This pattern is common across India. Were these outskirts to be officially integrated into municipal space, some 40 percent of India’s 500 districts would

<sup>6</sup> de Haan, Arjan. *Livelihoods and Poverty: The Role of Migration. A Critical Review of the Migration Literature*. (The World Bank, Social Development Department; [NEEDS CITY], 1999) 15.

be urban as of 2001. This urbanization pattern is attributed to liberalization of economic policies in the 1990s, which has favored major cities and their near-in regions for location of investment and production. While an estimated one third of urban growth is thought to be due to densification or natural population increases within cities, another full third is attributable to the redrawing of urban boundaries to incorporate into municipal administrative areas these adjoining urbanized peripheral regions, also known as ‘peri urban’.<sup>7</sup> Thus the process of urbanization and state of being urbanized often incorporate both urban and rural spaces.

There are significant variations in the nature and patterns of urbanization across states that prevent policy and program generalization and treatment on a national scale. Urbanization as a process and “indicator of the transition to a modern more developed society”<sup>8</sup> has been agriculture-led in the Punjab, but industries and services-led in Maharashtra and in Gujarat, where Ahmedabad is considered the most important textile city in India.

## **ii. Economic Growth**

### **(a) Urban economy, employment, and productivity**

The urban centers of India contribute over 60 percent of the nation’s GDP and more than 90 percent of all government revenues while accommodating just a third of the country’s population.<sup>9</sup> The agricultural economy is dependent on unsustainable input subsidies (water, power and fertilizer) and is exempt from income tax but still runs a distant third in its returns when compared to the largely urban-based industrial and services sectors. These sectors of the economy show by far the most dynamic returns, as for example information technology software exports of U.S. \$3 billion annually, growing at 50 percent per year. The current annual total of all merchandise exports is U.S. \$43 billion. Structurally, the country’s fiscal economy is heavily dependent on the urban economy. Job generation and opportunities for growing populations are largely urban-based with essential agricultural sector reforms expected to drive even more population toward urban or peri-urban employment.

### **(b) Investment, labor and globalization**

Compared with the opportunities presented for greater economic growth in cities and urban agglomerations, investment has remained relatively low and the benefits of economic growth have been largely secured by a core elite, leaving swelling populations of urban laborers in poverty. Further, the formal wage sector has not been able to absorb

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<sup>7</sup> India Urban Sector Strategy, Asian Development Bank, August 1998, p.2 and India Urban Sector Strategy, June 16, 2001. The World Bank (confidential), p.2.

<sup>8</sup> United Kingdom Department for International Development (DFID), India’s Urban Poverty Reduction Strategy, September 2000, p.14.

<sup>9</sup> Based on National Institute of Urban Affairs (1997) *Urbanization in India Patterns and Perspectives* and World Bank India: *Urban Infrastructure Services Review*, quoted in Asian Development Bank (1997) *India Urban Sector Strategy*, 1998, p.3.

the growing labor force.<sup>10</sup> The consequence has been huge growth of the unregulated and unregistered informal economy and casual employment as the crucial employer of the lower income strata. In Ahmedabad, a city of 4.5 million people, some 77 percent of the economy might be classified as the informal economy. For example, there are an estimated 100,000 street vendors (30,000 of which are women) who are gainfully employed though poorly compensated and steadily harassed. Street vendors typically maintain their business locations through bribes, although, according to the Self Employed Women's Association (SEWA), vendors would be willing to pay a municipal licensing fee. The informal economy continues to expand not only because of the lag in job generation by the formal economy to absorb rapidly-growing populations, but increasingly because modern manufacturing and service businesses, influenced by global markets and trends, require skills and training that the urban poor (and migrating rural poor) do not have. For example, restructuring of the textile industry due to technology upgrades (i.e. move to power looms) and changing tastes (e.g. shift from saris to western wear) has resulted in high job losses for urban poor, many of whom are rural migrants, particularly women, with traditional weaving skills. The quality and availability of training and skills enhancement below the first tier (e.g. scientists, engineers, technicians) is poor and essentially non-existent for large populations of urban poor.<sup>11</sup>

### (c) Urban poverty

Given the variation in the pattern of urbanization, recent analysis of urban poverty published by the United Kingdom's Department for International Development (DFID) shows urban areas in India having a larger proportion of people living below the poverty line than rural areas in many States. This was found to be the case in both more developed (and therefore more urbanized) States of Karnataka and Punjab as well as in less developed States of Andhra Pradesh, Kerala, Madhya Pradesh, Uttar Pradesh and Rajasthan, all of which have reported higher levels of urban than rural poverty for several years.

While the majority of the country's poor currently resides in rural areas with a 1:3.5 ratio urban-to-rural poor, statistics of the National Institute of Urban Affairs reveal a heavy bias in government budget allocations and emphasis toward addressing rural rather than urban poverty, with the ratio of funding for poverty programs at 35 to 1, rural to urban.<sup>12</sup> The depth and scope of urban poverty in India, unlike rural poverty, is poorly understood due to lack of systematic information and analysis. Statistics focused on income-related poverty in urban areas omit major non-income dimensions captured in living conditions and social indicators.<sup>13</sup> Increases in urban poverty are attributed not only to migration (rural-urban) but also to in-place densification of populations in squalid slums (informal settlements) and chawls (tenements) with limited access to basic services or employment remuneration needed to meet basic needs. These conditions trap populations in poverty. For example, in Ahmedabad, 40 percent of the city's population – many of whom have

<sup>10</sup> Country Assistance Strategy (CAS) of the World Bank Group, March 13, 2001.

<sup>11</sup> CAS.

<sup>12</sup> DFID, p. 4, 6.

<sup>13</sup> World Bank India Urban Sector Strategy, June 16, 2001, p.3. (check to see if can reference)



no access to basic urban services – live in 1,029 slums and 1,383 chawls.<sup>14</sup> These conditions are repeated in Delhi (50 percent), Mumbai (50 percent), and Chennai (40 percent to 50 percent). Slum dwellers are growing at 9 percent to 10 percent per year, twice as fast as the rest of city populations. Indian slum populations are estimated to be in excess of 100 million, having doubled in the last decade.<sup>15</sup>

### **iii. Governance – a slow devolution process**

#### **(a) Rural bias**

The Gandhi period is viewed as having triggered a romantic movement focusing on rural life with little or no acknowledgement of cities and which philosophically held forth against cities: “regard the growth of cities as an evil thing, unfortunate for mankind, and the world, unfortunate for England and certainly unfortunate for India.”<sup>16</sup> India’s Constitution never referenced local urban bodies until 1992. Governance in India has developed over the decades since Independence with an entirely rural focus. Except for large industry investments during the Socialist planning era, national policies and investments guided and supported rural area development. In this vacuum, thousands of local nongovernmental organizations (NGOs) have emerged across the country to help address the basic services needs of the urban poor that normally would be part of a larger governance process and strategically guided by effective local government. These NGOs include the National Slum Dwellers Federation (the largest); the Self Employed Women’s Association (SEWA) and SPARC.

#### **(b) Constitutional framework for decentralization**

The 73<sup>rd</sup> Constitutional Amendment moved India away from decades of central planning and national political party prescription to State empowerment and local self-governance for rural areas with functional and fiscal devolution to local governments. It left urban governance to the States. Only in 1992, with the passage of the 74<sup>th</sup> Constitutional Amendment, was the constitutional basis created for a third tier of government for urban areas. Implementation has been slow. The financial, administrative and management implications of transition away from central planning and the inheritance of national debts and moribund institutional infrastructure have left many States near bankruptcy and unable or unwilling to implement functional and fiscal decentralization. Local urban governments have newly designated powers and responsibilities, but without minimum financial resources, institutional management or professional cadre. Roles, definition and distribution of responsibilities between States and local urban authorities are in a state of conflict and confusion. Even today, India has yet to issue a national urban policy to guide implementation of the provisions of the 74<sup>th</sup> Amendment. The decentralization process is slow with much stickiness at the State level where the State Municipal Act must be revised or rewritten State by State.

<sup>14</sup> UNDP-World Bank Water and Sanitation Program- South Asia. Field Note. Ahmedabad Parivartan.

<sup>15</sup> Asian Development Bank, India Urban Sector Strategy, August 1998. p.3, 6.

<sup>16</sup> Sivaramakrishnan, K.C. *Power to The People, The Politics and Progress of Decentralization*. p 179.

### (c) Drag of special purpose authorities

The issue of governance at the local level and clarity between State and local urban governance is made more cumbersome by the plethora of State and city-level development boards and special purpose authorities. These creations, encouraged by donors in the 1960s and 1970s and embraced by national government as a management model for cities, have in many cases usurped traditional local government functions. Many of these parastatal bodies have “the same maladies, such as corruption, unresponsiveness, political interference, lack of accountability, financial mismanagement, viewed in the past as problems exclusive to municipalities.”<sup>17</sup> Devolved to States and cities, they are a drain on resources. Sorting out authorities, consolidating institutional infrastructure, progress on basic issues of governance and fiscal decentralization are all essential for financial viability of both States and municipalities. The viability of cities is critical to investor confidence and future economic growth opportunities for and contributions by cities.

### b. The Immediate and Looming Issues

#### i. Health – massive largely unmeasured and unmet needs in urban slums

USAID-India’s preliminary exploration of urban health issues in India, buttressed by National Family Health Survey data and supplemental UNICEF data, documents the lowest quintile in urban areas to have considerably worse health status than the poorest quintile in rural areas when compared for infant mortality and nutritional status (Table 11).

<b>Table 11: Infant Mortality Rates and Nutrition Indicators, Urban and Rural India</b>		
<b>Health Condition</b>	<b>Urban</b>	<b>Rural</b>
Infant Mortality Rate	121 deaths per 1,000 births	109 deaths per 1,000 births
Percent Underweight	74%	60%
Percent Stunted	69%	55%

Source: Socio-economic Differences in Health, Nutrition and Population, The World Bank 2000

Absence of shelter or substandard housing with poor ventilation, crowding, open and poor drainage, lack of direct access to clean water, absence of sanitation systems for human and solid waste (including hazardous waste) disposal, and polluted air create a hazardous health environment for urban slum populations, particularly children, who suffer repeatedly from diarrheal and respiratory disease, spread of both contagious infection such as tuberculosis and water and insect-carried infection such as malaria, dengue and typhoid. Food insecurity has been raised by the World Food Programme and others as another growing urban problem, which is worsened by unsanitary conditions, insecure and inadequate incomes, precarious shelter accommodations, and single female-headed households. AID’s preliminary assessment of urban health found that “no strategy currently exists to address the health needs of the urban poor in India. Health and

<sup>17</sup>Sivaramakrishnan, p 129-132.

infrastructure systems which target the urban poor are virtually nonexistent or in their early, initial stages.”<sup>18</sup> The GOI Ninth Five Year National Plan recognizes for the first time “underserved populations in urban slums.”

## **ii. Neglect of economic infrastructure and services**

The scale and rate of largely unplanned growth of Indian cities and urban agglomerations have led to serious infrastructure deficiencies that reduce business productivity, discourage new investments, and compromise the quality of life for all income strata, particularly the urban poor. While urban centers are essential to modern economic prosperity, this is increasingly constrained by severe investment deficiency in urban infrastructure for potable water, sewerage, drainage, and waste water management; poor municipal services, such as waste disposal and transport; and extensive housing shortages and price distortions in land and real estate markets, leading to enormous spread of unsanitary and largely unserved slums. Only one half of urban households have access to safe drinking water, toilets and electricity. Industries routinely face water and energy shortages, traffic congestion, and loss of worker productivity due to illness, often due to unhealthy living (and working) conditions. Poor air quality affects all people, regardless of income strata. The World Bank estimates an annual loss of 6 percent to 8 percent of GDP due to degradation of the physical environment in both urban and rural areas but with particular emphasis on conditions in India’s largest cities.<sup>19</sup>

Indian cities are serviced today by infrastructure designed to meet the population and industry needs of the mid 1960s.<sup>20</sup> National neglect of urban infrastructure and services can be attributed to lack of preparedness for the huge growth in cities and urban agglomerations, and lack of national and local urban policy frameworks, planning, professional capacity and financing to address the challenges. In recent decades, productive economic investment (industry and commercial enterprises) in cities and peri-urban areas has not been connected to public (or joint public/private) provision of minimum services and facilities to support growing populations attracted to job opportunities. The result has been extensive informal and unserved or under-served urban settlements.

In 1998, the ADB noted that “given the importance of cities to the country’s economic development and future position in the world economy, it is imperative that India promote public and private investments in the urban sector. Maintaining and increasing the productivity of cities also requires a concerted effort to strengthen institutional and human resource capabilities in urban management.”<sup>21</sup> Yet the investment needs are astounding. The ADB estimated a requirement for U.S. \$215 billion in infrastructure investments for 2001-02 to 2005-06 (including urban development, power,

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<sup>18</sup> Improving Health of the Urban Poor Living in Slums In India: Strategy for USAID Investment June 2001, p. 4.

<sup>19</sup> India Country Assistance Strategy, March 13 2001, The World Bank Group. P 3

<sup>20</sup> *Asian Environmental Outlook 2001*, Asian Development Bank. P. 8.

<sup>21</sup> Ibid, p. 3.

telecommunications, roads, industrial park and port investments) and that 85 percent of total capital requirements for infrastructure will have to be domestically financed.<sup>22</sup>

### **(a) Industrial and domestic water use and waste water management**

While representing only about 4 percent of water demand, industrial wastewater, mostly located in urban or peri-urban areas, is a “major contributor to contamination of surface and ground water supplies, impacting downstream users.” The ‘potability’ of every municipal drinking water system in the country is believed to be in question due to lack of continuous water supply and depressurization of the pipelines. The problems are extensive – inadequate water supply, leaking and aging infrastructure with water losses of 30 percent to 60 percent, limited hours of supply (one to six hours per day), poor maintenance, subsidized pricing and poor collection rates, and lack of finance to expand systems to populations in thousands of slums. Resulting conditions contribute to alarming national losses due to water borne disease estimated at 73 million working-person days of illness per year and over 25 percent mortality of children under five years of age.<sup>23</sup> Between 30 percent and 50 percent of water supplied to urban populations is consumed through unmetered and unbilled public standpipes.<sup>24</sup> The urban poor are taking three hours a day of lost income potential to get access to minimal supplies of water of questionable quality. Water supply in large Indian cities of 1 million or more population ranked Delhi and Chennai first, Mumbai second and Calcutta fourth worst among 27 Asian cities in terms of water availability per day.<sup>25</sup>

### **(b) Human and solid waste disposal management**

Only 6 percent of cities and towns have sewerage systems, and few of those systems operate effectively. Forty-two percent have open channel sewerage and conditions are steadily worsening. Chennai had 80 percent coverage at the time of Independence and has 35 percent coverage today. A huge quantity of sewage flows untreated into water bodies and the water table. The larger cities at their centers have some systems in place, but conditions are poor outside this core. Smaller, newer municipal corporations and municipalities face similar problems. For example, in the Calcutta Municipal Corporation (exclusive of the metropolitan area) with a population of more than 4 million, only 55 percent of the area and 70 percent of the population have underground sewerage. The city alone generates 800 million liters of sewage daily, of which 675 million is collected. But, in the Calcutta Metropolitan Area (CMA), which includes three municipal corporations and 35 municipalities, with a combined population of 13.2 million, only 50 percent of the population and 27 percent of its area have sewerage and drainage facilities. In slum and squatter settlements, estimated to contain as high as 50 percent of the

<sup>22</sup> Based on figures in *The India Infrastructure Report 1996, Policy Imperatives for Growth and Welfare in ADB India Urban Sector Strategy*, 1998) p. 21.

<sup>23</sup> *USAID An Integrated Water/Energy Strategy for India, January 15, 2001*. p.iv, 2-9, 2-10.

<sup>24</sup> *USAID An Integrated Water/Energy Strategy for India, January 15, 2001*, p 2-7.

<sup>25</sup> *Rudo South Asia Program Review, May 21-25, 2001* p.16.

population, there are no toilet facilities. These populations are forced to use open drains and spaces. The CMA also has no public urinals.<sup>26</sup>

Solid waste collection and disposal management services have been neglected over the decades and represent a growing municipal problem, which only worsens with growth. There is not a single city in India with a fully functional and appropriate system. Where household and neighborhood collection is organized, municipal collection sites are open heaps and collection rates are rarely better than two-thirds. In Calcutta, 30 percent to 50 percent of municipal vehicles remain permanently out of operation. Waste is most frequently disposed of in uncontrolled dumps. In Chennai (population 6.4 million), the Municipal Corporation clears only 2,000 tons of the 3,000 tons of garbage produced per day. In Calcutta Metropolitan Area (population 13.2 million), with an estimated 4,800 tons of garbage generated daily, only 2,970 tons or 62 percent is collected. Not one sanitary landfill exists in the country. Hazardous and hospital waste disposal is a growing problem. Industrial growth has rapidly increased generation and accumulation of solid and hazardous wastes. Awareness is low among populations. Mountains of uncollected waste have created ideal breeding grounds for rats, flies and culex mosquitoes, all of which transmit disease. While Indian cities have been making progress on collection, disposal remains a major challenge.

### **(b) Air quality**

Less than a decade ago, India shared the distinction in South Asia with Bangladesh, Nepal and Indonesia for having the worst urban air pollution. Together in 1994, these four countries alone accounted for 40 percent of the global mortality in young children due to pneumonia, a disease that can be caused by air pollution. Delhi had total suspended particulate measures of 378 micrograms per cubic meter in 1994 – five times the WHO annual average standard. Calcutta measured higher at 419 micrograms per cubic meter. Calcutta City alone measured air pollutants of 700 tons per day, including 240 tons from automobiles. Urban populations in India are further compromised by indoor air pollution caused by coal combustion, used as cooking fuel. Large slum populations are exposed heavily to both indoor and outdoor air pollution. The largest cities in India are beginning to address emissions issues. Delhi has banned categories of leaded vehicular fuel, but lacks an adequate supply of the compressed natural gas alternative. Traffic congestion remains a serious problem. Few cities have any traffic management.<sup>27</sup>

### **iii. Limited involvement of private sector in problem – solving for cities**

Many cities have been growing in a completely unplanned and unregulated manner. In a country full of engineers and architects, there are few professional urban planners and fewer still trained in planning techniques appropriate to an emerging market economy. . Public infrastructure and housing deficits are now so large that they are far beyond the

<sup>26</sup> Khan, M. Adil and Samiul Hasan. *A Study on Calcutta: Key Issues, Concerns, and Lessons Learned*. [city: publisher, year] p.13-14.

<sup>27</sup> *Asian Environmental Outlook 2001*. P.11.

means of traditional capital budget planning, government transfers and donor commitments. Cities need long term debt financing. Increasingly, cities want to engage the private sector, for technical expertise and for capital market financing of infrastructure investments. They don't know how to develop commercially viable and bankable projects, nor how to be market-oriented and attractive to private investors. AID's Financial Institutions Reform and Expansion (Debt) – known as FIRE(D)-- project supported a process with the City of Ahmedabad to enable it to become creditworthy in the eyes of the private capital markets and to float the first municipal bond issues in India. This was a significant, influential experience observed by cities across India and indeed across the whole Asia region. In addition to the challenge of conceiving commercially viable projects, many now appreciate the importance of sound financial management. However, financial management improvements are hindered by poor accounting practices and systems; weak sources of own-source revenue; dependence on State fiscal transfers, which are threatened by serious deterioration of State fiscal conditions; and political confusion and obstruction among development authorities over responsibilities for municipal infrastructure and services, exacerbated by inadequate on-staff capabilities.

The Indian private sector itself is nascent and remains wary, unused to dealing directly with municipal governments. As the World Bank has noted in its CAS, water/sanitation is an area where the private sector has an important potential role to play even though the sector is currently less financially viable and commercially oriented than the power sector. But even in the power sector there is reluctance. The Industrial Credit Investment Corporation of India lends to industry for energy efficiency but is reluctant to work with municipalities for the same thing.

#### **iv. Urban land and property market distortions**

A long-standing issue that both the GOI and donors have been reluctant to address is regulatory distortions in the urban land and property markets. These distortions are believed to produce an estimated 1.3 percent loss of growth each year in cities as potential investors in housing and retailing, the largest domestic sectors outside of agriculture, are denied access. Distortions in land markets are created by inflexible laws, such as the Land Acquisition Act, which create unpredictable delays for completion of land acquisition. The artificially low Floor Space Index Regulation prevents construction of high rise buildings and the Urban Land Ceiling Act severely restricts the supply of developable land in urban areas, creating severe price distortions. In the property markets, archaic zoning laws, state rent control acts and tenancy laws have curtailed much needed improvements, freezing out competition and modernization.<sup>28</sup>

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<sup>28</sup> Lewis, William. Remove Barriers to India's Growth Wall Street Journal, 11 September 01, p 6. and Asian Development Bank India Urban Sector Strategy 1998, p 7-9.

### c. The Donors' Changing Role

#### i. Emergence of donor 'country' urban strategies

Within the past five years, there has been a major increase in the attention paid by donors, both multilateral and bilateral, to issues of urbanization and local urban governance in India. The largest donors, Asian Development Bank, The World Bank, and DFID have all issued urban sector strategy papers:

*India Urban Sector Strategy*, Asian Development Bank, August 1998

*Urban Poverty Reduction Strategy*, DFID, September 2000

*India Urban Sector Strategy*, The World Bank, June 16, 2001

*India Urban Water Supply and Sanitation World Bank Group Strategy*, May 26, 2000

The ADB only began involvement in the urban sector in India in 1993. Its *India Urban Sector Strategy* was driven by both the unprecedented challenges as well as opportunities expected from the tremendous growth of India's urban population over the coming decades. The perception that "the inadequacy in urban infrastructure and services, coupled with a severe shortage of available housing poses serious constraints to India's sustained economic growth and productivity" was a key motivation for drafting the report.<sup>29</sup>

DFID has made a global commitment to halving the proportion of people living in extreme poverty by 2015. DFID's India Country Strategy Paper July 1999 recognized that "accountable and representative local government is crucial to poverty-focused development," but its focus was still largely on rural local government, district level and below. While DFID has been engaged in urban poverty reduction in India since 1985, DFID's decision to develop an urban strategy was prompted by recognition of the current (2000) estimates of 40 percent poverty among current urban populations and projected 2025 urbanization levels of 50 percent. Its *Urban Poverty Reduction Strategy* is premised on their belief "that significant reductions in poverty in India will only be achieved if the urban dimension is included in all policy planning and development."<sup>30</sup>

The more recent World Bank *India Urban Sector Strategy* follows the World Bank's *India Country Assistance Strategy*. The latter "proposes enhanced support to the urban sector because it is critical to India's overall economic development and particularly its poverty reduction program." The strategy combines the economic growth and poverty reduction objectives of the ADB and DFID, aims to support the role of cities in economic development and seeks to improve the living standards of poor urban dwellers.

<sup>29</sup> *India Urban Sector Strategy*, Asian Development Bank, August 1998, p 1 and 32.

<sup>30</sup> *DFID India Country Strategy Paper, July 1999*, [missing full cites] p.6; *DFID India's Urban Poverty Reduction Strategy, September 2000*, p 2

Other smaller donors, such as the UN World Food Program (UNWFP) and CARE India, are laying the foundations for larger urban development programs. UNWFP, which recently issued *the Food Insecurity Atlas of Rural India*, has begun work on a *Food Security Atlas of Urban India*. These institutions recognize a serious problem with nutrition in cities, a problem that involves both affordability of adequate calories and nutrients, and problems of hygiene and sanitation that inhibit assimilation of food eaten for a healthy and long life.<sup>31</sup>

CARE India, perhaps the largest NGO in India with an FY2000 resource base of U.S. \$83.57 million, has for 50 years been engaged in nutrition and health and emergency relief and rehabilitation efforts at the village level. In FY 2000, CARE India launched its first urban project in India, called Promoting Linkages for Urban Sustainable Development (PLUS). The project focuses on slum dwellers and developing and supporting linkages and initiatives to further the inclusion of slum communities into civic structures. CARE has launched some pilot urban projects to expand health initiatives to work on the problem of high reproductive morbidity and mortality among women and improved healthcare for adolescent girls in urban slums and to begin to gear its programs and staff for effective urban focused delivery (also see reference to CARE in Bangladesh, II.B.2). CARE's strategic approach to working through local partnerships and strategic alliances with all stakeholders is well suited to urban settings. CARE is making a point when working on reproductive health, hygiene and safe motherhood, family planning, HIV/AIDS prevention and alcoholism in urban slums to establish (cross sectoral) "linkages with various government and non-governmental agencies to address the felt needs of the community related to water, sanitation and education."<sup>32</sup>

## ii. Development approach changing

The development approach of donors is also changing to a greater focus on partners who themselves are committed to: poverty reduction; building long term relationships with partners at national state, municipal and district levels; enabling greater local ownership both locally and nationally; moving away from projects limited to individual sectors and promoting synergy between sectoral programs and addressing broad cross-sectoral issues; more emphasis on geographic focus and therefore greater depth of programming; and closer donor collaboration to ensure coherence of effort and to share each other's respective comparative advantage in skills and capacity.

The changing approach is epitomized by DFID. During the late 1980s and early 1990s, DFID was the largest single bilateral donor in the urban sector in India, funding individual slum improvement projects. Projects failed to meet development objectives fully, including sustainability and replication. (Other donors have experienced similar problems.) DFID is moving away from stand-alone projects to more holistic citywide programmatic approaches based on bottom-up planning, a broadening of partnerships –

<sup>31</sup> *State Level Food Insecurity in Urban India A Note on Methodology*, (CITY: M.S. Swaminathan Research Foundation, year) p. 1-2; Minutes of the First Steering Committee Meeting of The Food Security Atlas of Urban India, Chennai, 8 August 2001, p.4.

<sup>32</sup> *CARE India Annual Report*, Care India, 2000) p.12.



private, public and voluntary sector – and increasing local governance capacity. Equally important, DFID is tying reform at the city level to broader institutional and economic processes at the state and national level (rural-urban linkages and planning) – linking city level partnerships with state and national level partnerships in order to mainstream lessons learned into state and national policy. DFID’s strategy is long-term and geographically focused in a few States for depth of impact. While expanding work with other international organizations (donors) and the GOI, DFID also seeks to mobilize India’s own talent to meet the urban challenges by supporting a range of national bodies, such as the National Institute of Urban Affairs, Human Settlements Management Institute, and All India Institute of Local Self Government.

### **iii. GOI-donor focus on good governance and leveraging private capital markets**

Donors have noted a change in GOI perceptions of the role of urban development and local governance in the last decade. Until recently urban infrastructure was not considered a “core” economic issue and national development policy focused more on rural development and rural poverty than on the problems of cities. But economic liberalization, financial sector reform and decentralization have refocused attention on three issues: the changing economic role of cities in the national economy; the threat to the pace of national economic growth caused by services deficiencies and poor governance in cities; and the perception set forth in recent Constitutional Amendments that local urban governments working with local populations are better able to cope with issues of growing urban poverty and its threat to social and political stability than State or National Governments.

National, State and Local Urban Government policy makers in India are aware of the huge backlogs in infrastructure investments in Indian cities and urban agglomerations. They recognize that investments of this magnitude are beyond the funding capacity of the donor community and are thus looking to raise this capital in the private domestic and international capital markets. This requires building creditworthiness and good governance practices in Local Urban Governments and greater clarity of State and local fiscal relations. Thus there appears to be a shift in GOI-donor dynamics in the field of urban development to focus donor assistance on strategies for engaging the private capital markets including work on impediments to capital flows and assistance to improve governance at and between State and Local Urban Government levels.

## **d. The Current AID Situation**

### **i. Portfolio and pillars – Mission performance on urban issues**

USAID-India has started the process of preparing a new program strategy for the period 2002-2015. Initial parameters for the process were set forth in *The Tiger Revisited Parameters Paper USAID/INDIA 2002-2015* June 2001. In this process, it is useful to

look at what AID is already doing to respond to issues of urbanization in the recent decade as this can provide a useful foundation on which to build a new urban strategy.

### **(a) Environment**

#### **(1) Environmental infrastructure and local governance nexus**

The principal AID urbanization intervention has been the Indo-US Financial Institutions Reform and Expansion Project Debt Market Component (FIRE[D]), managed by the Regional Urban Development Office (RUDO) operating since 1994. FIRE(D)'s initial objective was to institutionalize the delivery of commercially viable urban environmental infrastructure and services, using demonstration projects and technical assistance to develop a commercially viable infrastructure finance system for given local governments. The project cycle has coincided with national start up of the implementation of national decentralization toward self-governance for local urban governments framed under the 74th Constitutional Amendment. While implemented initially more as a vehicle to develop commercially bankable infrastructure projects and link them to capital markets development, the project's scope fits ideally the new needs of Local Urban Governments. Under decentralization, local governments assume responsibility for management of urban infrastructure and services and development of systems for financial and project management and sustainable operations and maintenance. The resulting broader demand by Indian clients for assistance with fundamental systems of local governance and decentralization (particularly to fill the vacuum of policy, regulation and legal framework at the State level) prompted a mid-way broadening of the original scope of the project, taking effect in 1999. The expanded mandate has enabled FIRE(D) to become a core advisory resource to all levels of government in the continued implementation of the 74<sup>th</sup> Constitutional Amendment and decentralization, but still relating broadly to a comprehensive reform agenda for water/sanitation service delivery and financing and operating water and sanitation on a commercial basis.

A typical example of FIRE(D)'s "advisory and enabling technique" is the introduction of a commercial-standard double entry accrual-based system of accounting for municipalities to enable assessment of their financial performance and position as required by private investors. FIRE(D) introduced the accounting system as a financial management process and served as a facilitator to enable local and State pilot testing with broad stakeholder participation and local training partners, engaged the professional oversight and endorsement of the Institute of Chartered Accountants, encouraged and aided extensive sharing of information nationally on the new accounting approach and lessons learned through the pilots using networks such as the City Managers' Association and All India Institute of Local Self Government, and ultimately gained sufficient convergence of agreement leading to a decision by National Government to adopt the system as a national standard. This style of collaboration with local and state partners and the private sector has led the way among donors undertaking work on urban development and local governance and has strongly influenced the donors' current urban strategies.

## **(2) Environmental services**

Through the regional programs of RUDO and US-AEP, USAID-India has been able to lend support to local and now national initiatives to address serious health hazards, such as poor solid waste collection and disposal, and air pollution. In the solid waste management field, support has been given to local and national NGOs such as EXNORA (local) in Chennai, the Centre for Resource Education (local) in Hyderabad and The Indian Environmental Society (national) to pilot and replicate self-sustaining community-based approaches to solid waste management and to raise community awareness. A jointly-funded RUDO and USAEP staff person and US-AEP technical staff have provided various States with assistance to develop bio-medical waste management legislation. Assistance to the relevant committee of the Supreme Court of India resulted in incorporation of best practices in hazardous waste management into national legislation and preparation of a manual on solid waste management to guide cities and towns on new rules promulgated under the nation's Environmental Protection Act. The staff person sits as the only non-government member of a national Technical Advisory Group that oversees demonstration projects testing appropriate solid waste management technologies. On the issue of air pollution, USAEP has worked through local NGOs, such as CONSERVE, on public awareness of air quality issues. It has generated recommendations and amendments on vehicular air pollution filed with the High Court Committee and worked on a national in-use vehicle inspections and maintenance system. Current initiatives leverage U.S. partners such as the New York Transit Authority to work with mass transit systems in India to meet ISO 14001.

## **(3) Advocacy and peer learning for local government reform**

Both RUDO and USAEP together have supported the founding and launching of the City Managers Association of the State of Gujarat (CMAG). As a fee-based autonomous professional body, CMAG functions as an advocacy group for local government reforms and good governance management practices and a vehicle for peer to peer learning. City Managers Association chapters in nine other States are planning to launch similar associations by 2002. The City Managers Association network, while still nascent, brings together both elected and appointed officials and is an exceedingly important step in building momentum for implementation of 74<sup>th</sup> Amendment principles of decentralization and self governance for urban local bodies. State authorities are fully supportive and in Gujarat are using the CMAG more and more to sort out State-local relationships which is an important indicator in an environment where States have held up local government reform nationally. Given the size of India and the scale of urban problems, the evolving CMA network institutions see themselves as invaluable for mobilizing quick action in times of crisis, spreading advice and learning on urban development and governance solutions, supporting scaled-up action, and working to professionalize cadres across the 3,586 urban local bodies which include 95 city corporations, 1,436 municipalities and 2,055 nagar panchayats.

## **(b) Health**

### **(1) Family planning**

AID's health portfolio for family planning has been focused on reduction of high levels of fertility and improved women's reproductive health – with contraceptive marketing efforts and health programs directed almost uniquely at rural populations in northern India (Uttar Pradesh State), working at the district planning level. But program managers are beginning to respond to recent national statistics on family planning programs in India which show women of reproductive age in urban slum populations to be harder to access and less likely to adopt reproductive planning techniques and strategies than rural counterparts. A four State generic campaign "Goli Ke Hamjoli" was carried out by AID in urban areas in northern India, an addition to AID's family planning strategy in rural areas. Programs from rural areas need to be adapted and new program elements added for effectiveness in urban conditions. CARE India seems to have a useful start on this through pilot initiatives in the slums of Allahabad (Uttar Pradesh) and in Jabalpur (Madhya Pradesh).

### **(2) Mother and child survival and nutrition**

At present there are no targeted urban health components for mother and child survival and nutrition. The Mission's long-term target clientele and focus of interaction have been poor women and children at the greatest risk to mortality, morbidity and malnutrition in remote rural and tribal villages. World Bank analysis in 2000 of 1992-1993 National Family Health Survey results (further buttressed by UNICEF Multi Indicator Cluster Survey indicators under development since 1996) revealed measures of health status in urban areas, in particular for populations in urban slums, to be worse than in rural areas. In November 2000, a joint effort by the Mission Health Office, RUDO and AID's Office Population, Health and Nutrition in Washington (W PHN) developed a work plan for the implementation of an urban health activity in support of the objectives of the USAID-India Child Health Strategy. This revealing report noted the absence of both strategy and health and infrastructure systems targeting the urban poor and, except for modest exceptions like CARE and UNICEF, the almost total absence of donor assistance targeted to address this problem. Based on a review of the few examples of successful health programs in urban slums in India, the report underscored the importance of "a multi-sector approach and a focus on building partnerships between municipal corporations, NGOs, the social service sector and other private sector partners." In draft, the USAID-India proposes "to approach urban health with a broad public health perspective," starting with child health and expanding over time to all other health portfolio components.<sup>33</sup>

<sup>33</sup> Barbiero, V. et al. Improving Health of the Urban Poor Living in Slums in India Strategy for USAID Investment. Draft report, U.S. Agency for International Development, 2001. p. 5-6.

### **(3) STDs/HIV/AIDS and other infectious diseases**

India's highest at-risk populations for sexually transmitted diseases (STDs), including HIV/AIDS, are sex workers, truckers, industrial workers, street children, and casual labor migrants. They typically live and work in urban areas or commute to cities from other towns or rural locations. Operating since 1992, the AIDS Prevention and Control Project (APAC) has focused on Tamil Nadu State. Managers have learned the importance of increased prevention and care services to at-risk populations in cities and the need for mitigation strategies to help curtail the spread of this deadly disease. APAC is targeting new populations, such as industrial workers who are largely based in urban or peri-urban locations. It is also attempting to work through the corporate sector. A second AIDS program, AVERT, signed in September 1999 and focusing on Maharashtra State, pays particular attention to cities registering high numbers of HIV infections, including Mumbai, Pune, Thane, and Sangli. Work with street children living with HIV/AIDS has already begun through six NGO activities. In discussions preparatory to the Mission's new strategy for 2002-2015, a long-term ports project has been suggested. This prevention effort would work with highest at-risk populations, such as sex workers, migrant workers (both national and international), truckers, and ship crews. The project may involve 11 major ports and 143 small ports.

Other serious infectious diseases, such as tuberculosis and polio, are particularly hard to prevent or treat in urban slums. USAID-India seeks support for an intensified polio eradication program in urban slums. The Mission's health focus has been on capacity building within State governments and local nongovernmental organizations to respond to the HIV/AIDS epidemic and to control other infectious diseases. With health services' responsibilities devolving to local governments with oversight by States, engaging municipal corporations and municipal governments as core partners in the STDs/HIV/AIDS and other infectious disease strategies would foster the sustainability of these health programs.

#### **(c) Water and energy nexus**

The Mission does not as yet have an energy strategy focusing on issues of urban areas and industry within these areas. However, the Mission has engaged on some particular issues for which models are being considered. And in some cases pilots are being tested including improved traffic management in cities to reduce build up of greenhouse gas emissions, urban air pollution, reduce fuel wastage and congestion. Another issue is to improve energy efficiency of municipal water stations where pilot projects (e.g. Kolhapur City) have proven that huge savings can be made in reducing municipal costs for and wastage of energy, critical to financially strapped local governments. USAID-India is working in Delhi on energy commercialization and conservation in urban buildings by deploying energy efficient technologies paid for through energy savings. Finally through ICLEI there is work with cities on baseline data of emissions and goals for reduction.

USAEP has aided on the issue of industry emissions and moving to ISO 14000 certification and introduction of energy efficiency management technologies.

The Mission's focus for the immediate future is on the water/energy nexus in agriculture that consumes, highly inefficiently, 40 percent of India's power for irrigation with a consumption demand projected by 2025 to be well beyond ground water storage potential. However, the Mission's foundation assessment for the water/energy sectors, *USAID: An Integrated Water/Energy Strategy for India, January 15, 1997* clearly laid out the critical and growing water and sanitation issues of cities, affecting both health of populations and economic growth. It showed the connection with energy demands for every step of the municipal water supply process, attributing 50 percent to 70 percent of operating and maintenance budget for water utilities to the purchase of power for aging systems with 30 percent to 60 percent water losses. Given the enormous existing and projected growth of urban populations, the Mission engaged municipalities and industries (the latter especially on the issue of contamination of surface and ground water supplies) in "on the ground" interventions to develop comprehensive efficiency packages for both water and energy in a way to increase pressure for overall reform efforts in the water and energy sectors.<sup>34</sup> The strategy urged leveraging of existing programs well positioned to continue improvements in the water sector, such as FIRE(D); the Clean Technology Initiative for industrial wastewater clean up and reuse; and the proposed W PHN/RUDO health initiative for awareness raising and treatment of urban slum populations affected by poor water supply and sanitation.

#### **(d) Social development and gender**

The key urban issues on which the Social Development (SD) management is engaged, aided by regional support from SARI Equity, are child labor and trafficking, increasingly an urban issue; domestic violence with increased violence and reporting in dense urban slums; slum dwellers' livelihood issues for women; and entitlement issues of slum populations for basic services (water, sanitation, drainage, health, education) and shelter. The SD management works cross-sector and sees need for a city-focus where family and community safety nets are weak and represent an incubator for unrest but also an opportunity for building on the themes of governance and democracy. There has been close cooperation between SD and RUDO on gender issues. In its preliminary gender assessment for the new strategic plan, SD commented that the Mission should "think about combining urbanization and women's empowerment as an integrating theme, clustered around women's health and urban water and sanitation, women's economic empowerment and (micro)finance, and capacity building of women elected officials."

#### **(e) Disaster response and mitigation**

It appears that insufficient attention had been paid to the vulnerability of urban populations to disaster until last year's Gujarat earthquake. The Mission's experience had been limited to response to rural disasters, employing familiar existing networks used for

<sup>34</sup> PA Consulting Group, USAID. *An Integrated Water/Energy Strategy for India, January 15, 2001*. : PA Consulting Group, U.S. Agency for International Development, 2001)p. v, 2-9

PL480 activities. Existing urban networks and relationships, familiar to RUDO through local governance work, and technical teams available under FIRE(D) and through US-AEP, became critical to the success of urban and peri-urban relief efforts directed by the State. Within one week of the earthquake, the City Managers Association of Gujarat fielded talent from multiple cities to undertake damage assessment. Urban disaster preparedness will be a new component of the scope of a new Mission special objective for recovery reconstruction and rehabilitation needs in times of crisis. The on-going relationships and partner networks of RUDO and other Mission teams engaged in development initiatives in urban areas are expected to continue to be important in meeting these objectives.

#### **e. Conclusions**

In sum, the critical development issues of urban areas appear to be:

- severely deficient water and sanitation services and lack of health services
- the need to gain access to private capital markets for infrastructure financing, which will require serious work on municipal financial management systems and development of commercially viable projects
- mobilizing the capacity and systems for local governance, including sorting out roles, responsibilities and fiscal authorities and resources under decentralization

The Government of India is mounting increased demands for assistance from donors on a wide variety of issues of urbanization and decentralization. The Mission recognizes that “the development agenda in India is not (and can not be) driven by the donors whose program budgets represent a meager fraction of the GOI capital budget. The challenge is to be relevant to their (GOI) agenda.” USAID-India is cognizant of both its strengths and weaknesses for a response to urbanization and is well-placed to build a multi-sector ‘strategic approach’ to urbanization into its new strategy.

#### **Strengths**

##### **(a) Solid foundation with FIRE(D) Legacy**

The Mission is already engaged in urban development issues or educating itself on urban issues in several sectors, but its greatest strength remains the foundation created over the past seven years by the FIRE(D) project. This project’s management style under RUDO has been one of ‘can do’ and quick response. It has gained the trust and confidence of policy and decision makers on urban development and governance issues at all levels – national, state and local – and has built credibility in India’s private financial sector as well as among partners and advisors in the international capital markets. In addition to the official networks, it has supported and gained the confidence of a network of national and local NGOs and CBOs working in cities, such as SEWA, EXNORA, and professional associations such as the Institute of Chartered Accountants. It has created new networks such as the City Managers Association in Gujarat State, all of which are critical to any successful and sustainable achievements to improve the livability of urban

slums and build inclusive local governance practices from the ground up. FIRE(D) has also provided continuity during a period of great flux in both State and local governments among leadership and technical staff and for national leaders struggling to give legs to national decentralization mandated in the early 1990s by amendments to India's Constitution. AID's FIRE(D) Program has placed it on the cutting edge of some critical urbanization issues.

#### **(b) Management structure and urban expertise**

The RUDO and its technical staff represent an enormously valuable set of knowledge assets, staff who are actively shaping the Mission program on urbanization and local governance either directly or by advising/supporting Mission policy makers] to think through the issues and launch urban initiatives. The Mission is also diversifying by building urban and local governance awareness and expertise tied to urban health issues through implementation of the increasingly urban-focused HIV/AIDS/STD strategy and following on from the W PHN/RUDO joint urban health initiative. The Social Development and Gender Office represents another element of the Mission structure that is building understanding and capacity to respond on urban livelihood security issues of trafficking, drugs, child labor, domestic violence, and gender discrimination. A newly created Disaster Mitigation Office, responded to the Gujarat earthquake and will address urban disaster preparedness and recovery. RUDO, the Health Office, Social Development and Gender Office, the Disaster Response Function – are promoting multi-sector, multi-partner approaches to addressing complex issues of urbanization and have developed close cooperating work-styles.

#### **(c) Civic participation and public-private partnership**

A strong asset in India for work in urban slums and on broader urbanization issues of local urban governments are the extensive networks of NGOs and CBOs, many of which have been working on these issues for years. They have championed civic participation and citizen entitlements and have gained the confidence and respect of citizens and officials alike, as they have figured out which approaches work best. The growing network of city managers associations is another asset. Private for-profit networks of skilled consultants on issues of local governance and management are also emerging in this new era of self-governance in India. Private sector skills will be crucial technical assets to local governments whose skills base is likely to remain deficient for some time.

#### **(d) Regional resources and programs**

On issues of urbanization, the Mission continues to benefit from supplemental complementary activities in solid waste management, energy efficiency of cities and industries, urban air pollution abatement and regional and US learning forums and exchanges on common urbanization issues, funded under the RUDO regional program funds allotment, and by the regional USAEP. They have enabled the Mission to do more beyond its heavily earmarked budget. Perhaps the more important result of these regional



funds and activities is the sharing of knowledge on conditions and practices and the measuring of progress on urbanization issues between cities and urbanizing regions and corridors and among urbanization experts in the region. This informs, spurs on and scales up reform initiatives in individual countries and mobilizes written and electronic materials that are disseminated at home and far beyond through global internet networks.

## **Weaknesses**

### **(a) Governance**

The Mission's program lacks a clearly articulated local governance element. This is a significant omission in a country the size of India, which has committed to a national process of decentralization of governance to state and local governments and to popular participation in local governance. Also, the Mission's preliminary democracy and governance assessment in preparation for its strategy development process is significantly deficient in its limited focus on elections, performance of elected officials and civic participation in same. A critical discussion of the vital management functions of local government to generate or raise and manage financial operating resources, to attract investment and guide local economic development, to deliver and manage directly or through private agents basic public services, to maintain public land, housing and other public assets, and to maintain a productive relationship with state and national governments is largely absent. These issues go to the heart of the assistance requested of the Mission by Indian cities and States under the mandate of decentralization. They merit careful consideration as the Mission's new strategy is formulated.

### **(b) RUDO Gradually Losing the "R"**

The Regional and Urban Development Office (RUDO) has in its seven years in India been a "free" resource to the Mission, with its full technical and support staff paid for by the Urban Programs Office out of Central Bureau resources. Its regional program and function over the years has shrunk with the increase in home Mission responsibilities and the decrease in regional program funds to support regional activities and activities in other non-RUDO presence missions of South Asia - Bangladesh, Sri Lanka and Nepal. RUDO has effectively become a principal management unit within and for the India bilateral program, working 90 percent at least on India programs. The RUDO Office has performed with distinction, employing only two OE-funded direct hires and 2.5 OE FSN support staff. (half a position is based in Colombo, Sri Lanka). The excellent technical staff of 5.5 is all program-funded with one position cost-shared with USAEP and located in Ahmedabad. While the regional function could perhaps be valid (see below), the current arrangement and funding conditions do not allow the time and resources for serious regional analytical work and urban backstopping of other missions to be undertaken as it was originally conceived.

### **(c) Earmarking**

The portfolio is on average 87 percent earmarked, which effectively dedicates resources to objectives framed with no clear or explicit contribution to improving urbanization processes and outcomes, and thereby limits management's flexibility to redeploy within the current resource base.

## **2. Bangladesh**

Bangladesh is one of the most densely populated countries in the world, with roughly 800 people per square kilometer. Overall population is expected to double to more than 250 million people by the year 2035, even if fertility declines to replacement level. Population pressure is relentless and influences all development considerations.

Bangladesh is considered to have made good progress economically since independence in 1971. Key social indicators have improved and poverty has declined. Nevertheless, there are enormous challenges that need to be addressed over the next 20 years. These include strengthening primary health care, curtailing malnutrition, improving education, and protecting the environment. Both government and the private sector need to consider how their roles might help address these crucial challenges, if meaningful progress is to be made.

What is becoming very clear is that much of the population growth and much of the expected economic growth are going to take place in the country's cities, which are unprepared for these challenges. The result may well hamper Bangladesh's prospects for greater economic prosperity.

### **a. Dimensions and Characteristics of Urbanization**

#### **i. Demographics**

##### **(a) Population**

Bangladesh, with a total population of 129 million (2000) still has a relatively low level of urbanization, only 24.8 percent. Its challenge is the rate of urbanization. Between 1981 and 1990, the urban population grew annually at 5.4 percent, or twice the average annual population growth rate of 2.4 percent.<sup>35</sup> The decadal percentage gain in urban populations from 1990 to 2000 was 68 percent and 91 percent in the previous decade (1981-1990). In 30 years, Bangladesh is projected to be 43.8 percent urbanized.

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<sup>35</sup> Government of Bangladesh Urban Management policy statement, October 1999.

<b>Table 12: Urban Population of Bangladesh, 1980-2030</b>		
<b>Year</b>	<b>Urban Population (thousands)</b>	<b>% Urban</b>
<b>1980</b>	9,968	11.3
<b>1990</b>	19,005	16.4
<b>1991</b>	22,455	20.15
<b>2000</b>	32,000	24.8
<b>2015</b>	55,000	33.9
<b>2030</b>	82,000	43.8

Source: Bangladesh Bureau of Statistics 1991, UN World Urbanization Prospects, 1990 and 1999 Revision

Urban population growth projections by United Nations' *World Urbanization Prospects* (which tend to be more conservative than those by Bangladesh agencies) show a modifying pace of urbanization in Bangladesh, but still more than twice the average total national population growth rate and three to four times that of rural population growth rates for the period 2000 to 2030.

<b>Table 13: Comparison of Total, Urban and Rural Populations Projections of Percent Annual Growth Rate, 2000-2030</b>						
	<b>Total Population</b>		<b>Urban Population</b>		<b>Rural Population</b>	
	<b>2000- 2015</b>	<b>2015- 2030</b>	<b>2000- 2015</b>	<b>2015- 2030</b>	<b>2000- 2015</b>	<b>2015- 2030</b>
<b>Third World Asia</b>	1.2	0.8	3.2	2.6	0.2	-0.4
<b>AID Asia Countries</b>	1.4	1.1	3.8	2.8	0.4	-0.2
<b>South Asia</b>	1.6	1.0	3.9	3.2	0.5	-0.2
<b>Bangladesh</b>	1.5	1.0	3.7	2.7	0.6	-0.1

Source: UN Centre for Human Settlements, *Cities in a Globalizing World: Global Report on Human Settlements* 2001

ADB registers urban population growth in Bangladesh at over 8 percent per annum for the last 30 years against an average overall population growth rate of 1.6 percent.<sup>36</sup>

### **(b) City size and numbers**

The urban settlement structure of Bangladesh includes four city corporations, and 170 secondary towns or municipalities (pourashavas). The largest cities (the city corporations) are, for the most part, growing faster than the national urban growth average of 3.7 percent per annum.

<sup>36</sup> Asian Development Bank. *Country Assistance Plan 2001-2003*. p 21.

Table 14: Bangladesh Largest Cities Population and Growth Rate				
Year	2000	2015	1995-2005	2005-2015
	Total Population (thousands)		Annual Population Growth (percent)	
Dhaka	12,317	21,119	4.9	3.2
Chittagong	3,581	5,875	3.8	3.1
Khulna	1,426	2,305	3.3	3.2
Rajshahi	1,016	1,852	5.4	3.6

Source: UN World Urbanization Prospects, 1999 Revision

Dhaka in 2000 had 38.5 percent of the country's urban population. While the UN shows its annual growth rate at 4.9 percent, urban planners in Bangladesh claim a 6 percent annual growth rate, making it one of the fastest growing mega-cities in the world.

### (c) Significant Characteristics of Urbanization in Bangladesh

#### (1) Migration and changing perceptions of home

The greatest contribution to urbanization is through migration. Most of the heads of household among the urban poor are migrants. Migrant heads of household are estimated at 72 percent nationally and 85 percent in Dhaka.<sup>37</sup> An estimated 3.5 to 4 percentage points of total annual national population growth comes through migration while only 1.5 percentage points is through natural increase.<sup>38</sup> Most heads of household are unskilled and with little formal education. Researchers find a change in social attitudes has occurred in the past few decades regarding the rural-urban scenario. In the past, people would work in urban areas but would always consider the village of birth as home and the place they would invest in and retire to. Today, the prevailing attitudes are reversed. According to one expert, "Almost the entire population of the country would think in terms of settling in some town or city, given the option and opportunity."<sup>39</sup>

Migration to urban areas is partially a result of people being pushed from rural areas by abject poverty, landlessness, loss of assets due to disaster, and lack of employment. But with agricultural growth in recent years, there is also the attraction to urban areas. With a relatively high rural population density of about eight persons per acre, at least a third of rural households are landless. Despite the prevalence of the landless state among the urban poor (81.9 percent nationally and 96.9 percent in Dhaka) and greater urban living expenses, social risks and environmental degradation, migrants are still drawn to the possibility of some form of remunerative employment in urban areas.

<sup>37</sup> Eds. Sutter and Perine *Urban Livelihood Security Assessment in Bangladesh*, p 3.

<sup>38</sup> Interview with Nazrul Islam, Urban Geographer from Center for Urban Studies, Dhaka, September 2001.

<sup>39</sup> Faizullah, M. Urban land issue and governance. in Eds. Islam and Khan. *Urban Governance in Bangladesh and Pakistan..* (Dhaka: Center for Urban Studies), p. 63.

## (2) Patterns of urbanization and urban agglomerations

Patterns of urbanization show a lot of regional imbalance and concentration, with growth driven initially largely by national industrial investment policies. For example, the garments industry located 1,500 factories employing 1.5 million people largely in central Dhaka under government direction. The results included very significant problems in planning and services delivery.. All workers had to find housing and a result was rapid expansion of Dhaka slums. Export zones have recently been established outside of Dhaka to decentralize this investment concentration but moving the 1.5 to two million workers from Dhaka is difficult. The largest urbanized districts are Dhaka (54 percent), Chittagong (39 percent) and Tanguil (39 percent), each has a core metropolitan city, Dhaka, Chittagong and Khulna respectively and all have comparatively higher GDPs.<sup>40</sup>

### ii. Economic Growth

#### (a) Urban economy – formal and informal

Municipalities are the home of much of the industry and service sector in the country. Records of GDP contribution by the urban economy have shown steady growth, for example 25 percent share of the national total in 1971 to a 38 percent share in 1992.<sup>41</sup> While the service sector has maintained a steady 6 percent annual growth during the period FY1998 to FY2000, industry sector annual growth has slumped from 8.3 percent to 5.6 percent. This significant decline from the previous years is attributable in part to “slow decision-making, inadequate infrastructure and social and political unrest [which have] deterred foreign investors.”<sup>42</sup>

While national economic reforms are needed, significant problems remain in governance issues and investment in infrastructure and services at the local level, not only in power and ports, but investments that get to the root of livability in municipalities and the stability and skills of labor. Resurgence of the country’s industry sector and growth of its services sector are crucial to recapturing the GDP growth levels of 8 percent to 10 percent that the World Bank and ADB consider essential if the country is going to make progress on the extensive acute poverty that remains in Bangladesh.

The role in the urban economy of the urban poor merits emphasis. Continued in-migration brings in a steady stream of rural low skilled workers. A percentage of these go directly into industry providing low cost labor such as in the garment industry (largely Dhaka-based) where an estimated 90 percent of the workers are poor and many of them are women.<sup>43</sup> Two products – ready-made garments and knitwear – represent 76 percent of the country’s total exports. But over the last three decades, far more people have come into cities than the formal economy can absorb in the wage sector with the result that an

<sup>40</sup> Eds. Sutter and Parine *Urban Livelihood Security Investment in Bangladesh*. Care International ) p. 2.

<sup>41</sup> *Towards and Urban Strategy in Bangladesh*. (The World Bank, ) p. 3.

<sup>42</sup> *Asian Development Bank Country Assistance Plan, 2001-2003*, p. 3.

<sup>43</sup> Islam, p. 22

informal economy has grown up in support of the formal economy, providing low cost housing and affordable transport to the work force, maids to the homes of middle and upper classes, and a rich variety of trades and services to support rapidly growing urban populations. While these informal sector workers are making an economic contribution with their activities, most are “chronically underemployed” in the sense of being able to provide themselves and their household with the bare basic necessities.<sup>44</sup> Though the urbanization trend has been going on for several decades, the rapid and on-going flow of migrants into cities and municipalities has not been planned for and this continues to be the case. Poor living conditions and high unemployment and under-employment, which remain unaddressed by government, render slum communities vulnerable to political manipulation and criminal enterprise. This condition poses a rising threat to social order and environmental sustainability.

### **(b) The labor trap**

The labor economy among the low skilled urban poor is highly competitive as more and more populations flow into the cities. Only an estimated 14 percent are actually employed in the formal economy but not in jobs that give the wage or opportunity (training) to rise out of poverty. And there are reports of exploitation – very low pay, lower pay than hours worked, delays in payment. Skills training inside the formal workplace or out in the community are virtually non-existent for the poor. Indicative of this is the extremely low literacy rate in urban slums of largest cities – Dhaka (10 percent), Khulna (8 percent), Rajshahi (6 percent) – in a nation where literacy rate on average is 56 percent.<sup>45</sup> The balance of the labor force among the urban poor are in the informal sector, mainly male, doing menial labor as construction day workers, rickshaw drivers, pullers, sweepers, hawkers, (most earning less than one dollar a day) or just remain unemployed. Those who do work have no stability of work or regularity in income. Frequent illness takes a regular toll on income.

In this Muslim society, most women do not work outside the home. At home they may do extremely low-paid piece work for the garments sector or handicrafts. Of the far fewer women who do work outside the home, they are exploited, paid the very lowest in compensation in jobs such as maids, paid 150-300Tk per month (U.S. \$3 to U.S. \$6) in Tongi (close to Dhaka) and lower yet in smaller centers. Women heads of household supporting children are forced into begging, considered socially to be a dishonorable activity. According to Care International, some 40 percent of urban poor households caught in a low pay/low skill trap do not have enough income to meet basic physical needs and are forced to depend on local moneylenders to survive, carrying expensive debt from month to month with annual interest charges as high as 120 percent. High percentages of children are not in school, estimated at 40 percent, because of their need to earn income and the family’s lack of income to put them in school. This only perpetuates a cycle of poverty and lack of adequate training for the next generation, and a future labor force that will be unprepared for the competitive skills needed in modern markets.

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<sup>44</sup> Sutter. p. 2.

<sup>45</sup> Sutter. p.3.

### (c) Geography of urban poverty

There is some disagreement over the exact dimensions of urban poverty but the level is unarguably quite high. Some estimates placed the number of urban poor in Bangladesh at 11 million in 1996. And 60.86 percent of these urban populations are below the ‘poverty line’<sup>46</sup> – classified as either absolute poor (monthly income below Tk3500) or hardcore poor (monthly income below Tk2500). Forty percent fall below the hardcore poverty line.<sup>47</sup> ADB placed the number of urban poor at 30 million in 1996.<sup>48</sup> In Dhaka alone, home to 12.3 million, some 55 percent are classified as poor – 6.8 million people. According to Care/Bangladesh, “over 60 percent of urban households in Bangladesh live in absolute poverty; over 40 percent fall below the hard-core poverty line.”<sup>49</sup> By contrast, AID sources indicate that urban poverty is lower than 25 percent .

According to the ADB, the most current trends actually show an increase in urban poverty, reversing earlier trends toward less urban poverty, while rural poverty is decreasing, albeit slowly. The absolute numbers of poor are very large. Furthermore, the income disparity or livelihood inequities in cities between higher income people and the masses of poor are widening. The urban growth, much of it from migrating un-landed rural poor, has happened quickly with little or no planning and is worst in the four major cities – Dhaka, Chittagong, Khulna, and Rajshahi. The poor populations of cities have been trapped in a vicious cycle of poverty where costs of living are higher than income. Their housing is severely deficient or absent altogether, and they lack most urban infrastructure and services. Large numbers live in the streets unsheltered. Many of the urban poor live in slums or bustees in multiple locations within urban areas. Some slums have as many as 80,000 people.<sup>50</sup> In 1996, the Asian Development Bank Center for Asian Studies identified some 3,007 slum and squatter settlements in Dhaka. The density of the slums and the scattered nature of the populations of urban poor in multiple sites across a city make them difficult to reach.

### iii. Governance

There was a return to a democratically elected national government in 1991, but local governments remain essentially run by the national civil service. For urban local governments in Bangladesh, there seems to be little movement toward serious decentralization of the powers of governance. Urban local governments remain under the administrative control of the Ministry of Local Government, Rural Development and Cooperatives. So far, consideration of reform has been focused on rural local

<sup>46</sup> Poverty line established on the basis of income/expenditure related to daily normative calorie intake plus cost of non-food items and services (up to 25 percent of food expenditure).

<sup>47</sup> *Toward an Urban Strategy for Bangladesh. September 30, 1999.* (The World Bank). p. 35; Care/Bangladesh Urban Livelihood Security Assessment, [1996] p i.

<sup>48</sup> Asian Development Bank Country Assistance Plan, 2001-2003. p 21

<sup>49</sup> Eds. Sutter and Perine.. *Urban Livelihood Security Assessment in Bangladesh. Vol. I Main Report.* (Care/Bangladesh, 1998) p i.

<sup>50</sup> Faizullah. p. 64.

governments. A Local Government Reform Commission did not address urban local governments. Centralized control of cities appears to be having a chilling effect on positive economic growth opportunities, and cities are losing their vitality.

Nazrul Islam, a respected Bangladeshi urban geographer, describes “governance” as ideally the “complex art and practice of governments working in multilateral, multi-sectoral and multi-faceted environment.”<sup>51</sup> This process of governance in Bangladesh for urban areas is severely dysfunctional. The municipal government is the primary organ of urban administration in Bangladesh, but urban governments in Bangladesh have gradually weakened in the years since independence. In general, municipal governments are very weak and rigidly controlled by central government through a range of special agencies and national government departments. National government retains the power and exercises the right to supercede elected representatives of urban local bodies. Responsibilities for integral urban local government functions, such as water-supply, sewerage, public latrines, regulation of building construction and location of commercial investments of factories, markets, vehicle licensing, public transport, electricity and gas supplies, public housing, primary education and pre school, town planning, fire fighting, have been given to special agencies or departments staffed and run by central government. Administrative capabilities institutionally are very weak throughout the governance system. At the national level, there is “weak commitment to sectoral reforms and endemic corruption,” according to the ADB.<sup>52</sup>

There is chronic lack of coordination among these centrally controlled institutions and between them and urban local authorities. There appears to be little evidence of integration between central planning and budgeting and local needs. All initiatives are undertaken in a ‘sectoral approach’ with multiple plans and actions that have no integrated physical or spatial context. City planning authorities created by central government in Dhaka, Chittagong, Khulna and Rajshahi have been hampered by lack of trained staff and mismanagement of resources, and are virtually bankrupt. The result has been limited action to expand and maintain basic services, plan and direct investment and growth in a rational manner in the face of enormous urbanization since the 1950s. The biggest victims of this confusion have been urban populations, particularly the poor, through the compromise of economic growth opportunities and profound environmental degradation caused by unregulated industry and unserved populations of cities. “The enormity of the problem paralyzed the few available planners into virtual inaction and the divided responsibilities for planning and development made [and still make] whatever efforts could be mobilized difficult to take place.”<sup>53</sup>

Historically there has been little citizen participation in decision-making in matters that concern them. This is beginning to change where leaders break away from the traditional submissive relationship with the central government. The current mayor of Chittagong,

<sup>51</sup> Islam, Nazrul and M. Khan. “Urban Governance in Bangladesh and Pakistan,” p 1 as found in *Urban Governance in Asia: Sub Regional and City Perspectives* ed by Nazrul Islam. 2000.

<sup>52</sup> Asian Development Bank Country Assistance Plan, 2001-2003. p 24

<sup>53</sup> Chowdhury, AHNA. Urban planning and governance in Bangladesh. In eds. N. Islam and M. M. Khan. *Urban Governance in Bangladesh and Pakistan*. (Dhaka: Center for Urban Studies, 1997) p. 82.



who consults the citizens and may bypass Dhaka in order to get things done, is one such leader. Participation skills are being learned by the citizenry in rural areas through their relationships with local and national NGOs.

In the sphere of governance, some alarm is voiced over the growing political influence, financial strength (backed by international aid funds) and “social engineering” of local NGOs. They have acted almost as a parallel government, providing services and facilitating voice where local authorities have failed.<sup>54</sup> NGOs’ involvement in urban areas, particularly in the health area started in the 1970s. In the absence of government attention to urban issues, NGOs have become, in many cases, the main, or even sole, vehicle for service delivery. The danger in this development lies in depending on NGOs without strengthening institutions and providing for accountability and appropriate governmental relationships.

## **b. The Immediate and Looming Issues**

### **i. Health and population – massive unmet needs in urban slums**

The government of Bangladesh, until most recently, has ignored health services requirements of urban populations, leaving that to the private sector and NGOs. Donors as well have been fully engaged with rural—rather than urban—health infrastructure for the last 30 years. The Government’s 1996 national health survey, HPSS, revealed slum populations to be more deprived than populations in rural areas, which spurred a shift in donor interest. The CARE/Bangladesh Urban Livelihood Security Assessment (June 1998) sought to develop an understanding of livelihood and food security within poor urban communities of varying size. The details reveal staggering health problems among the urban poor:

- *Nutrition and food* - Maternal and child malnutrition rates are significantly higher than for the rest of Bangladesh. Women eat last, after men and children, when little of quality is left. Pregnant and lactating women eat even less. In the rainy season, family incomes fall off and food shortages increase. Families scavenge for wild leaves and vegetables. There is high evidence of stunting and malnutrition in children and severely under weight pregnant women.
- *Lack of hygiene* – Ninety percent of families use latrines shared with many other households. There is considerable evidence of un-maintained, overflowing latrines. Latrines overflow whenever it rains, flooding living spaces with sewage. Some people have no access even to shared latrines, resulting in use of public spaces. Children often use public places. Household practices are often unhygienic, with many lacking soap or clean water for washing of food and utensils and bathing. Some latrines empty directly into water that is also used for washing. These conditions result in a high incidence of diarrhea, often fatal to children. Other common illnesses, some spreading more rapidly as population densities increase, include tuberculosis, measles, chickenpox, pneumonia, asthma, skin lesions, dysentery, jaundice, gastric pain and ulcers.

<sup>54</sup> “NGOs in Bangladesh, Helping or interfering?” The Economist, September 15, 2001. p 37.

- *Solid and hazardous waste exposure* - Most household waste is organic, which attracts insects, vermin and other disease carriers. Dengue and other deadly diseases are spread by mosquitoes that breed in trash cans and old tires.
- *High mortality rates* - Most births are at home in unsafe or unsanitary conditions, attended only by untrained helpers. This, domestic violence, and botched abortions result in a high mortality rate among women. In urban areas, the infant mortality rate is 74 per 1,000 live births and there is a high rate of childhood deaths due to pneumonia and diarrheal diseases.
- *Hazardous shelter* - Most homes are shacks built of temporary materials in low-lying areas. Homes are frequently waterlogged, often with chronically damp floors. Occupancy is dense, with 81 percent of families living in a single room.
- *Health care* - Access to health services with adequately trained staff is limited due to low income, lack of influence and constant movement (floating) of slum populations with no stable residence. Preference among women is for traditional healers and religious leaders.

## ii. Neglect of economic infrastructure and services

The levels of urban infrastructure and services in cities of Bangladesh are extremely low and existing systems are strained to the breaking point. The following conditions are documented by the World Bank and ADB:<sup>55</sup>

- *Potable water* – Water is in short supply, even with improvements in household water connections. Only about 55 percent of the poor have access to tap water, and the percentages are lower in secondary urban centers. Even where water is available, it is often not potable, forcing households to boil water before using. The poor spend hours at shared community tube wells to get water and, without adequate means to boil water, are the greatest risk for waterborne disease.
- *Drainage* – Most urban areas lack proper drainage systems and are regularly flooded or waterlogged during monsoons, especially low lying areas, which tend to be areas where poor populations must live. Floating raw sewage is a serious health threat during monsoons.
- *Sewerage treatment* – Only Dhaka has a waterborne sewerage system, and it serves only part of the city. Eighty-eight percent of the poor have no access to this system and negligible access to any sanitary alternative. They use unhygienic shared latrines or public spaces instead. The sanitation problem in the largest cities is worse than it is in smaller cities because of large number of people involved, but lack of sanitary conditions is also a serious problem in secondary cities.
- *Road systems* – Roads are narrow and poorly maintained, hindering such services as fire fighters and solid waste removal. Poor control of building and squatter settlements contributes to the problem.

<sup>55</sup> Asian Development Bank Bangladesh Country Assistance Plan, 2001-2003, p 21; Toward and Urban Strategy For Bangladesh, September 30, 1999, p 51; Asian Development Bank Cities Data Book: Urban Indicators for Managing Cities, 6 April 2001.

- *Power supply*--In Dhaka, only 40.5 percent of households have legal connections to electricity, 26.2 percent are illegal connections. The poor mostly use kerosene for lighting and wood or kerosene for cooking, creating serious respiratory problems from indoor pollution.
- *Solid waste* – Municipal waste collection and disposal is poor. Dhaka generates 5,800 tons per day, of which only 42 percent is collected. In the smaller city of Khulna, generating 200 tons per day, only a third is collected. No city has adequate disposal. There is little or no system for collection in slums, where garbage is thrown into ditches, open areas, and drains. Drains that are clogged with garbage cause flooding, which spreads garbage and sewage. Slums frequently are located in areas where dangerous chemicals are present. Hospital waste is not properly managed.
- *Air pollution* – In the largest cities, particulate air pollution from transportation is severe. In Dhaka, 40,000 to 50,000 auto rickshaws are responsible for 25 percent of particulate matter and 60 percent of smog-forming hydrocarbons. Health-related costs and losses in productivity are high. Repeat cases of pneumonia in children, a major cause of child death among urban slum residents, is attributed to air pollution.

### iii. Solid waste pollution, collection and disposal challenges

Waste generation in Bangladesh is growing astronomically, with a 58 percent growth in five years and is projected to nearly triple by 2025. Municipal waste is already the largest source of organic pollution in surface waters and is significantly responsible for spread of water borne disease.<sup>56</sup>

**Table 15: Urban Waste Generation in Bangladesh  
(Tons per Day)**

1995	10,742
2001	17,000
2025	47,064

Source: Waste Concern, Solid Waste Management NGO, Dhaka

The mega-city of Dhaka generates 5,800 tons of solid waste per day and, on average, solid waste collection is only 42 percent. At present, Dhaka has only one dumping site, which is expected to reach its intended capacity within a year.<sup>57</sup> Given the failure of urban administrations to cope with the problem, community efforts have emerged to collect waste and, in some instances, to process it. The local NGO Waste Concern, supported originally by South Asia RUDO regional funds, has become a leader in Bangladesh and is recognized throughout Asia for its research and innovative work in Bangladesh on community-based solid waste management, including compost generation and sales.

<sup>56</sup> *Environmental and Natural Resources Management in South Asia: An Assessment of Issues and Opportunities, EPIQ, Draft Final Report* p 35.

<sup>57</sup> Waste Concern, Dhaka, an NGO engaged in solid waste management issues in Bangladesh.

#### **iv. Violence, abuse and criminality in slums**

Violence is all too common in urban slums. There is little sense of community, the result of mixed ethnic groups and a very mobile and ever changing population. Drug use and trafficking, and other types of crime, are common, and criminals act with impunity. Women and children are targets of violence in the home through domestic violence, exacerbated by alcoholism. Rape, abduction, trafficking and other forms of violation are common, with young working women the most frequent victims. Child labor in urban slums to supplement family income is common, with one domestic child laborer for every 5.5 family members in Dhaka and Chittagong.<sup>58</sup> Most slum communities are victimized by local musclemen, called “mastaans”—some of whom are also corrupt political leaders. Mastaans extort protection fees and payoffs on all aspects of people’s lives (land rent, house rent, job security), despite the meager wages and business proceeds of their victims. Police are inactive in urban slum communities and frequently in league with criminal elements. The fear instilled in urban slum populations creates major social instability and impedes or prevents their acting collectively as civic units to improve their livelihood.<sup>59</sup>

#### **v. Urban flooding and other issues of disaster preparedness**

Disaster preparedness depends on having sound land use planning, resource planning and documentation.<sup>60</sup> Bangladesh has no disaster mitigation systems, and the risk of crisis is high. The country has extremely high population densities, and urban slums and squatter settlements have covered low-lying areas subject to flooding. These settlements obstruct the natural flow of water during monsoons and are subject to being swept away. Houses and buildings have gone up haphazardly, narrowing and obstructing streets and roads, making fire control, sanitation and other services difficult. Fires are common, with some fires maliciously started as a method of eviction. In Dhaka, with a city drainage system that is already failing, improperly designed and constructed flood control walls have no provision to flush out accumulated sewage and rain water. These walls not only stress the weakened city drainage system, but create a condition where “accumulated water polluted with sewage builds up in the low lying areas of the city during heavy rains.”<sup>61</sup>

#### **vi. Housing, urban land and property market distortions**

Bangladeshi cities have appalling housing. The millions of urban poor live as sub-tenants, squatters and ‘footpath’ or street dwellers. About 75 percent of housing units are built of temporary materials.<sup>62</sup> To avoid eviction, people have settled in the most

<sup>58</sup> UNICEF Survey, 1988 in BRAC Annual Report 1999, p 32.

<sup>59</sup> Urban Livelihood Security Assessment in Bangladesh. Vol I: Main Report. Ed Sutter and Perine. Care/Bangladesh, June 1998. pp. 1, 27, 36

<sup>60</sup> *Environmental and Natural Resources Management in South Asia: An Assessment of Issues and Opportunities, EPIQ, Draft Final Report.* p 18.

<sup>61</sup> Islam, M Aminul and Nazrul Islam. Urban Environmental Issues and Governance in Bangladesh, pp. 72-73 in *Urban Governance in Bangladesh and Pakistan*. Center for Urban Studies, Dhaka, 1997.

<sup>62</sup> *Toward an Urban Strategy for Bangladesh.* : The World Bank, 1999) p 51.

inhospitable places or areas of low commercial value, along railroad tracks, sewerage lines, drains, or next to polluting industries. Much of this shanty housing, built by the poor themselves, is on small plots rented out by private landowners. Often, no basic amenities are provided, with distant access to shared latrines and water sources.

With the high pace of urbanization, the economics of urban land use is becoming far more important. Urban land ownership is highly skewed. Less than 30 percent of the households in cities own more than 80 percent of the land. In Dhaka, many people accept the fact that some 90 percent of the population is landless.<sup>63</sup> The World Bank estimates that among the poor, only 3.2 percent in Dhaka are landowners while the average for the rest of urban Bangladesh is 18.1 percent.<sup>64</sup> In the larger cities, there is a high incidence of vacant land, speculative holding, and construction of low-rise buildings. In Dhaka, Chowdhury calculated the market price of urban land to have risen 40 to 60 times faster than the price of other goods and services, putting it much out of reach of average income households. Slums or ‘bustees’ disappear regularly as owners decide to convert land to residential/commercial uses of higher value. Municipal plots and government lands are also being developed. Government resettlement programs—where they exist—are usually not successful because of the distance between the settlement zones and places of work.

### c. The Donors’ Changing Role

In Bangladesh, the development dialog is still a donor-driven. In addition to AID, the principal donors are The World Bank, The Asian Development Bank, the EC, UNICEF, CIDA (Canada), DFID (Great Britain) and JICA (Japan), and large international NGOs such as CARE. Most donor programs are focused on macro institutional and economic reforms to attract investment, particularly into the energy field and pro-poor strategies in rural health, education and agricultural development. Among the two powerful national political parties, the Bangladesh National Party and the Awami League Party, which trade power back and forth, the latter’s policies appear to be pro-rural and anti-urban poor, as evidenced by periodic slum clearance actions. The national government’s focus with the donors has been on the energy sector and development of gas reserves and on rural development issues, while ignoring the growing and alarming issues arising from rapid and poorly managed urbanization. Donor awareness of the issues generated by urbanization and urban poverty is building, but too slowly to arrest the negative trends underway in the urban areas. Inattention to these issues by national government, weak local governments and governance processes, and barely nascent civic participation among urban populations has further delayed action on these issues.

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<sup>63</sup> Haque, M.M. An overview of urban land management in Bangladesh. In eds. Islam, N. and Choudhury . *Urban Land Management in Bangladesh*. Dhaka: Bangladesh Ministry of Land, 1992.

<sup>64</sup> *Toward an Urban Strategy for Bangladesh*.: The World Bank, 1999) p. 51.

### (i) The multilateral banks

There is an implicit understanding among the multilateral banks that the ADB will be active at the secondary city or town level and the World Bank will be active in the larger metropolitan cities or city corporations. While the World Bank issued a framework for a national urban strategy in *Toward an Urban Strategy for Bangladesh, September 1999*, sustained World Bank lending for urban development has been delayed for some years because of weak national commitment to sector reforms and endemic corruption. The World Bank approved a U.S. \$138.6 million municipal services credit in 1999.

Through its *Study of Urban Poverty in Bangladesh: Final Report Vol 1&2, May 1996* and its *Urban Sector Strategy for Asia, July 1999*, the ADB has recognized the challenges of urbanization in the larger Asia region, but has not yet produced a country urban strategy for Bangladesh. Despite the lack of reforms, during the 1990s the ADB had been active in some primary healthcare financing (construction only) and the traditional sector-specific infrastructure project lending in secondary and tertiary towns, but these efforts have largely been less successful, because of weak local governance and local institutions and weak community and private sector involvement.

The ADB chairs the newly formed Urban Sub-Group for the Donors Local Consultative Group, in which bi-laterals are mostly not active. The dialog is largely between the multi-laterals and they agree on the need for “some fundamental rethinking” and analysis to understand how best to address urbanization issues.

### (ii) Other active donors

Among other donors, UNICEF is active on water and sanitation issues, and has added urban slum populations to its list of most vulnerable at-risk populations whose health indicators are worse than the national average. WHO is extremely concerned with the levels of ill health in urban slums of Bangladesh. Under their Healthy Cities Program, WHO is building awareness and slum improvement through a participatory process which engages stakeholders in cities to plan and execute a strategy for a healthy city, focusing on both physical and mental health. WHO is not an implementer. JICA is somewhat involved in urban health but provides only facilities construction. CARE/Bangladesh completed groundbreaking research into the conditions of urban poverty in its 1998 *Urban Livelihood Security Assessment in Bangladesh*, and has fully integrated urbanization issues and participatory governance in its long range planning. Following this research, CARE approached AID and secured Title II local currency funding to undertake its first pilot projects in urban slums.

BRAC, the Bangladesh Rural Advancement Committee, reputed to be the largest national NGO in the world, initiated urban research and programs for the urban poor with its survey of urban slums in 1991. BRAC also started urban education programs, and these include schools for “hard to reach children, aged 8-14 involved in hazardous occupations,” such as water bearers, waste collectors, and shoe shiners; as well as schools

for child laborers in the garments industry and domestic child laborers. BRAC also supports low cost community primary schools. It has expanded urban programs into health (sanitary latrines), credit (savings and micro-credit), income generation, the environment (waste disposal) and urban policy advocacy, lobbying government policy makers, mobilizing ward commissioners and other organizations.<sup>65</sup>

#### **d. The Current AID Situation**

##### **i. Portfolio and Pillars**

USAID-Bangladesh is in the first year of its current strategic plan FY2000-FY2005. Poverty reduction is the overall theme that threads together the Mission's program. Its vision stretches across the coming 10 years. AID has begun to shift its attention "away from a predominantly humanitarian approach to poverty alleviation and take a more proactive approach toward broad-based economic development."<sup>66</sup> The focus of its strategy and its activities remains mostly engaged on the poverty issues and economic development, both macro and micro, which will advance rural areas and agriculture. In this strategy, the Mission is also working toward the political foci of the Bangladeshi national government. But the Mission's emphasis on poverty alleviation also gives it the scope to move incrementally on these issues for urban populations as well, and to give more consideration to the interrelationships between rural and urban issues. In fact, in the health sector, this is already beginning to happen. As observed by the Mission director, "a lot of key issues, if they aren't already, will be related to urban." There is some discussion at the staff level of a strategic rethink.

##### **(a) Health**

The Health Office of USAID-Bangladesh has a strong interest in urban health issues of the urban poor and has consistently advocated to be able to explore approaches to addressing urban health. Within the last four years, the Mission has added an urban dimension to its health strategy through the Urban Family Health Partnership. This area of development assistance has virtually no other significant donor activity with the exception of the ADB Urban Primary Health Care Program in the four city corporations. Given current Mission health program commitments in rural areas and no expectation of expanded resources, only models for urban health programs are expected to be established, with the goal of handing these models to other donors to implement on a larger scale. The World Bank has already expressed interest. The Urban Family Health Partnership successfully uses behavioral change communication marketing, a one-stop approach with the delivery of an Essential Services Package (integrating for the first time child health, reproductive health, communicable disease treatment and limited curative care) and a sliding scale pre paid health card system. There has been 7.4 percent per month growth in the program and huge unmet demand. The program is only covering

<sup>65</sup> *BRAC Annual Report 1999*. (Bangladesh Rural Advancement Committee) pp. 32-33, 38-40.

<sup>66</sup> USAID Strategic Plan FY2000-FY2005 A Focus on Sustainable Economic Growth, June 15, 2000.

about half of one city and smaller portions of other cities. It is not moving to new locations because its budget is limited and it is scheduled to end in a year.<sup>67</sup>

### **(b) Economic growth and rural urban interactions**

Most of the Mission's program to stimulate growth of the formal economy is working on the issues of value-added agri-business and rural industries. A separate JOBS project assists expansion and competition among existing small and medium enterprises (SMEs) to create more jobs. It is urban oriented only to the degree that some of its targets of opportunity, such as tanneries, electronics firms, horticulture business, are located in peri-urban areas, particularly on the outskirts of Dhaka. The project's clients are facing barriers such as a lack of access to credit, corruption, poor infrastructure. They must also cope with increased industrial effluent (from tanneries and others), and the related social problems of poor living conditions and worker health. In addition to adequate credit lines for SMEs, the missing integrating context linking such issues affecting SMEs is work on local governance – the policies, regulatory and services environment that enables the smaller businesses to thrive in the formal economy. Attention to issues of governance is made far more complex by virtue of the peri-urban location of industrializing areas in which SMEs locate. These peri-urban areas fall within the purview of multiple governing entities and so are subject to failure of governance, becoming environments in which bribery and extortion against small businesses and residents by opportunists thrives.

The Mission has mentioned tertiary town development as a possible future area for expansion and this is linked to the belief that “if agriculture can create added income over time to reduce poverty, Bangladesh could avoid massive migration of the rural poor.” It should be noted that, in contrast to this perspective, much of the recent literature on rural-urban interactions and migration suggests that migration can not be controlled and “what is needed is real decentralization of decision-making, with investment and resource raising at the local level which will allow the articulation of local needs and priorities and stimulate both rural and urban development”<sup>68</sup> – i.e. local governance. Secondly, without some resolution of wider socio-economic issues such as the land-owning structures of Bangladesh, continued migration to the larger population centers is inevitable.

### **(c) Democracy and governance**

The Mission's work on democracy and governance began in 1995. The focus has been on rural local governments and their governance process where they have found enormous public interest in having good governance at the local level. While the Mission has undertaken no related work with local urban governments, its experience in rural local governments could be transferable to individual wards of cities. However, with a contraction in the Mission's portfolio, the governance work at the local rural government level ended and all activities were pulled back to refocus on national policies, institutions

<sup>67</sup> The Challenge of Urbanization in Bangladesh and UFHP's Approach, August 2001

<sup>68</sup> Satterthwaite, D. “Sustainable cities or cities that contribute to sustainable development?” in *Urban Studies* 1997. 34(10): 1667-91.



and constituencies. The main thrust is to try and build a constituency for local government reform at the national level and stimulate policy debate. The Mission is finding a good deal of interest in cities on the issues of local governance as was found in the Mission's work in rural local governments. There is some hope of using local currency funds to work on governance issues in a few pilot districts. This would be an opportunity to include the larger district cities and engage on local economic development issues (including urban-rural interactions), an important function of local governance.

#### **(d) Environment and natural resources management**

Dhaka has some of the worst air pollution in Asia. The major urban initiative by the Mission in this sector is involvement in discussions with the Government of Bangladesh to reduce vehicle emissions by phasing out vehicles with two-stroke engines and by substituting cleaner burning compressed natural gas in place of traditional fuels. This includes converting 40,000 to 50,000 three-wheel auto rickshaws. Because the auto rickshaw is both inexpensive transportation for workers and an employment source for the very poor, AID is exploring use of a DCA credit to support a system of the National Bank wholesaling loans to leasing companies, who in turn would grant micro credits to rickshaw owners for vehicle conversion. In the spirit of the Global Development Alliance, this is a great example of public-private partnerships. CIDA has funded a pilot phase of auto-rickshaw conversion, using Canadian-supplied conversion technology. The Dhaka City Auto Rickshaw Business Owners Association is fully engaged, and the UNDP is training mechanics. The CNG Distribution Company, a partially GOB-owned company with foreign investors (including a U.S. investor), is committed to increasing the supply of compressed natural gas and setting up filling stations in Dhaka.<sup>69</sup>

This is also an excellent example of cross-sector cooperation, and an illustration of Mission staff seizing an opportunity to work cross-sectorally regardless of formal program structure. This multi-partner, multi-sector initiative is likely to be typical of future solutions for grappling with complex urban issues and the Mission has the opportunity to pilot innovative cross-sectoral management approaches from this experience.

The USAEP has been a valuable partner to the Mission for training purposes. USAEP's built-in structure of training and exchanges has enabled the Mission to send 30 professionals for training, mostly on urban-related issues.

#### **(e) Energy**

The Mission has been working since 1977 in the electric utility sector and since 1999 on energy deregulation. It has introduced private, independent power sharing companies, mostly foreign, which are employing sound business practices (especially in collections) and have stabilized generation by eliminating three to four hours per day load shedding. But for all municipalities outside of Dhaka, control of the electric systems remains with

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<sup>69</sup>E-mail 02 April 2001. R. Aniruddha to J.U. Coker re: Baby Taxi Initiative City of Dhaka.

the Government's Power Development Board (PDB), which is regarded as corrupt in its management practices and is unable to provide dependable electrical supply. This is a serious problem for smaller industry and service businesses in cities that do not have the means to invest in expensive electric generating systems, and the problem discourages investment (and migrating populations) to smaller urban centers outside of Dhaka. The positive news is the agreement by GOB, following encouragement from ADB and World Bank, to limit PDB involvement to its existing generation. Notwithstanding this positive development, the cost to the municipal economies is high. In Dhaka, which accounts for more than 50 percent of all power consumed nationally, 30 percent to 40 percent of users are not paying for electricity, and theft is estimated at 25 percent. This issue too is attributed to corrupt management practices by DESHA, the electric authority. DESHA's control of electricity coverage and collections in Dhaka was recently split up and a new entity, Dhaka Electric Supply Company (DESCO) formed, creating some competition for the first time. USAID-Bangladesh is assisting the new company to develop sound business practices.

The Mission appreciated the ability of US-AEP to mobilize almost overnight a U.S. \$1.5 million contribution to the Mission's energy program.

#### **(f) Human capacity development**

The Mission recognizes in its strategy that "Bangladesh will have a tough time expanding its niche in the global economy beyond the highly competitive low-wage industries without rapid improvements in education." The Mission is considering possibly adding an education component to its strategy. Given the preliminary CARE/Bangladesh indicator that 40 percent of school age children in urban slums are not schooled (and therefore becoming a new generation destined to remain in poverty) and the critical skills deficit and need for "re-skilling" of urban populations in poverty, consideration should be given to vocational skills training and primary education in urban slums.

#### **(g) Humanitarian assistance and disaster response**

The Integrated Food Security Program (IFSP) of USAID-Bangladesh has historically focused on the food security and disaster response for at-risk rural populations. Its new strategy recognized the new poverty in urban areas and included in its scope vulnerable groups in high risk urban areas. Until the last few years, there has been limited knowledge and acknowledgement of the alarming extent and depth of maternal and child malnutrition in the country's urban slums. USAID and the World Bank were instrumental in pressuring the Government of Bangladesh to acknowledge these conditions. Also, the problems of food security in urban areas are now acknowledged to be more complex and different than in rural areas – not a question of supply as in rural areas, solved to a degree through WFP and Government infrastructure and systems for food distribution, but rather one of income to purchase food, poor nutrient assimilation due to disease, and cultural behavior.

Following the results of its Urban Livelihood Security Assessment, CARE/Bangladesh approached AID with a proposal for a project to work on urban food security and related issues in urban slums. The Mission concurred. Using local currency resources generated by the Title II program, the Mission, through IFSP, is supporting the SHAHAR project whose goal is “to protect and promote food and livelihood security of urban poor and vulnerable households in high risk urban areas.”<sup>70</sup> SHAHAR (Supporting Household Activities for Health, Assets and Revenue) has four major components: institution strengthening (including institutions of municipal government) and community mobilization; income-generating activities (including access to credit); health, hygiene and nutrition; and infrastructure. The project is scheduled to work in four cities over five years at a cost of U.S. \$12 million to U.S. \$13 million.

On the disaster response side, Bangladesh is one of eight pilots of the Asia Urban Disaster Mitigation Program run out of the OFDA Regional Office in Bangkok. This activity will co-locate with the SHAHAR work in Tongi and do risk assessments, build awareness, and structure mitigation measures for this large district city.

#### **e. Conclusions**

##### **Strengths**

##### **(a) Solid foundation – UFHP health and SHAHAR (livelihood security)**

The Mission has built a solid foundation with its health program through UFHP on which to base future incremental urban-based initiatives, cross-sectoral in nature, resources (or reprogrammed resources) permitting. The CARE-managed SHAHAR project already is a holistic and cross-sector model, based on a participatory approach (similar in scope and approach to the highly successful SEWA work in urban slums in India), and offers the chance for greater success and sustainability among urban slum populations than single sector interventions. The UFHP has learned some important lessons essential to program success, which should translate into future Mission programming and targeting for underserved urban populations. First, the importance of tying health services programs to other concurrent interventions on access to safe drinking water, availability of hygienic latrines, safe disposal of hospital/clinic waste and campaigns against drugs, child abuse and violence on women. Second, and related to the first, is the importance of strengthening public/private and inter-sectoral collaboration and cooperation, including the need to integrate educational, environmental infrastructure and services, and micro credit interventions with health interventions and the need for strong local government office/NGO and NGO/NGO collaboration, coordination and cooperation.

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<sup>70</sup> CARE/Bangladesh IFSP SHAHAR Component Baseline Survey Report and Census Survey Report, June 2001 Jessore and Tongi Pourashavas and Census Survey Report II: Dinapur and Mymensingh Pourashavas, July 2001.

**(b) Civic participation and public/private partnerships**

In the absence of sustained national and local government engagement on the livability issues of urban populations, particularly the poor, strong networks of NGOs have emerged over the last 25 years. These organizations understand the scope of the challenges in urban slums and problems of operating within this environment, have gained the trust of local constituencies and are critical and willing partners. With thoughtful use of AID tools such as the development credit authority, the Mission also has the opportunity to build development relationships with private industry and private industry associations, an example of which was described above under (e)Energy above.

**(c) Regional and international exchanges and programs**

The Mission, aided by RUDO and USAEP resources, has supported Bangladesh's participation in regional forums and international exchanges. Bangladesh has the opportunity to share and learn from its neighbors in the region, some of whom have moved further on decentralization of the national governance structure and on issues of local management and financing of basic local government infrastructure and services. Participation in regional workshops such as the RUDO-sponsored Urban Governance in Bangladesh, Nepal and Sri Lanka, held in Katmandu in 1999 gave Bangladesh the opportunity to examine in great detail and compare with other countries their government structure and decentralization process. An exchange by the NGO Waste Concern to the Philippines enabled them to adapt solid waste management systems used in Philippines for use in Bangladesh.

**(d) A place at the table**

All donors are beginning to grapple with the issue of how to stretch and adapt decades of rural development programming to fit the new and growing requirements of urban areas. USAID-Bangladesh has already demonstrated initiative through its actions in the health sector and in food security. Its implementing partners and contractors are learning how to work effectively in urban slums and building an understanding of the real and complex issues of urban poverty. This is a significant asset to parlay into constructive long-term partnerships for the future.

**Weaknesses****(a) RUDO gradually losing the "R"**

The RUDO, based in New Delhi, represents a good resource of urban expertise and has had a few good activities in Bangladesh over the years. But its large workload in India and its dwindling regional budget make implementation difficult on the ground. The last two years has seen a very low level of RUDO activity and contact with the Bangladesh Mission.

**(b) Deficit of analysis on urbanization trends and issues**

The donor community has done relatively little analysis of urbanization in Bangladesh. Except for Dhaka, quantitative and qualitative descriptions and analyses of urban poverty, including the extent, locations and conditions, are limited. The CARE Urban Livelihood Security Assessment 1998 was a great contribution but only covered three cities: Khulna (a city corporation), Tongi (a large district city) and Bogra (a smaller district town). National statistics on urban areas do not disaggregate the urban slum populations, so it is hard to get a true picture of conditions. The spatial dimensions of urban poverty with multi-site pockets of slums, large and small, are for the most part unmapped, which is not surprising in cities that have little to no active planning. There is little experience with the spatial-governance-economic challenge of working with urban slum populations in peri-urban areas where governing responsibilities and authorities are overlapping or vague and where the rural-urban interactions offer the highest economic conflict and opportunity. There is a need for sector-by-sector analysis of key issues relating to urban populations, especially the most vulnerable, and how these issues are interrelated (e.g. how health conditions link back to environmental infrastructure and services deficits and forward to environment and natural resources degradation) to guide joint programming. Without investment in on-the-ground research into the changes brought on by rapid urbanization, USAID-Bangladesh will be at a disadvantage to adjust its strategy and prepare for future programming relevant to the changing needs of Bangladesh

**(e) Earmarking**

As with other missions, Bangladesh is heavily earmarked, which limits management flexibility to adapt current resources to evolving needs.

**(f) Governance: reform framework absent**

Substantive, sustained and effective work on urbanization issues, both its problems and opportunities, requires a commitment to good governance and participation by and accountability to local populations by both national and local leaders. There appears to be a persistent absence of political will by the Government of Bangladesh to engage on decentralization of governing authorities to local governments. Moreover, there is a demonstrable lack of a clear and appropriate legal framework under which urban local governments and processes of governance can be structured and conducted. These conditions suggest the importance of continued work at the national level to inform, educate and build consensus on local government reform, and continued work at the local level through pilot projects on urban livelihood issues with particular attention to urban slum communities, and working through multi-partner processes with NGOs, officials of local government and special purpose authorities, private industry, business associations and the media.

### 3. South Asia Secondary Countries

#### a. Nepal

##### i. The Situation

Nepal is largely rural (88 percent of population), extremely poor (42 percent of population below the poverty line of \$77 per capita annual income), landlocked, and fighting a Maoist insurgency. By 2030, it is predicted to be only about one quarter urbanized, although urban population growth is expected to be 3.9 percent annually in 2015-2030 (adding 15 million urban poor) as against 0.7 percent rural population increase in the same period. Poverty incidence in rural areas is almost double that of urban areas.

Which is not to say that problems of urbanization are not manifest and looming. Rural land shortage (20 percent cultivability), poor productivity, and insurgency motivate migration to urban areas (and out of the country) in search of work. Kathmandu is growing at a rate of 5.6 percent per year and will have 1 million residents by 2011. There are 65 squatter settlements. Nearly 50 percent of Nepal's urban population is reported to be living in abject poverty.<sup>71</sup> Local governance and mobilization of resources to treat problems of urban public services and employment generation have been weak and ineffective.

Public policy is evolving to improve urban governance by way of decentralization (supported by the ADB, among others), civil service reform, anti-corruption measures, promoting private sector involvement (including privatization of the Kathmandu valley water utility promoted by the World Bank), and working on environmental issues in particular. The ADB proposes to initiate a Secondary Towns Water Supply project featuring restructuring through public-private ownership arrangements, and “to support the development of alliances and business cooperation between [sic] the general public, private sector, and central and local governments to deliver environmental management services in both rural and urban areas” including solid waste management and air and water quality monitoring. The ADB cautions, however, that “further assistance will depend on progress in the institutional development of the Kathmandu Metropolitan City to establish effective delivery mechanisms for urban services in a sustainable manner.” (emphasis added)<sup>72</sup>

In sum, Nepal is beginning to turn attention to urban needs— in particular with ADB assistance. However, this review concludes that the ADB and others continue to emphasize that sustainable poverty reduction should be achievable, given central structural reforms, by generating jobs and increasing rural incomes through improving the performance of agriculture (currently 40 percent of GDP and 73 percent of

<sup>71</sup> Islam, p. 66.

<sup>72</sup> ADB 2001, p. 19.

employment). The authors of this assessment would suggest that this approach may perhaps be understood to be insufficient if, as seems likely, the forces that drive rural to urban migration in Nepal follow patterns observed elsewhere in Asia.

## **ii. AID Response**

AID focuses now on health and hydropower development, secondarily on governance – mainly of natural resources but not excluding local institutions and processes. Its integrating theme is “better governance for equitable growth.” The program is between 80 percent and 91 percent (depending on the year) earmarked for health/population assistance. Nevertheless, more accountable local self-government is a key target: “The Government of Nepal stands at a critical juncture as efforts to decentralize control over public resources and implement important reforms to curb corruption begin to be taken seriously.” The solution is good governance incorporating civic and private sector participation.<sup>73</sup>

Adoption and pursuit of this participatory governance strategic objective provides a foundation for USAID-Nepal to assist Nepal in meeting its primary urban challenge of public services provision to growing poor populations and the manufacturing and service industries on which their employment and considerable national economic growth will depend in the future. Cooperative assistance from central environmental, energy and governance programs and US-AEP would be useful to bridge the period during which urban requirements rise to grater prominence in Nepal’s development cooperation. The mission is contemplating and should proceed with an urban sector analysis to project needs and opportunities for the next strategic period – emphasizing, *inter alia*, an urban electric power-employment nexus, the future of internally displaced people (IDP), urban health issues, and the manageability of the Kathmandu valley urban region.

## **b. Sri Lanka**

### **i. The Situation**

Sri Lanka endures a civil insurrection with pessimistic prospects – a conflict that severely limits growth potential and is causing Sri Lanka to lose ground on most measures of social and economic well being. More than 800,000 people have been displaced and around 60,000 killed. While the economic growth rate was reported to be about six percent in 2000, that was from an unusually low base from the previous year and is not expected to be maintained. Approximately 400,000 IDP remain unable to return to their homes or be re-settled securely and productively, some having remained in that state for up to 10 years. The ADB’s recent poverty analysis indicates that almost 40 percent of the country’s families are either poor or vulnerable to poverty – a level more or less constant during the 1990s.<sup>74</sup>

<sup>73</sup> [www.usaid.gov](http://www.usaid.gov): Nepal Key Documents SO5.

<sup>74</sup> ADB. *Country Strategy*, 7/2001.

Sri Lanka is about one quarter urbanized, projected to be about 50 percent by 2030 – with significant urbanization of poverty to be expected—absent dramatic development in industrial and services sectors. Without reform, migrants then as now will face distortion in land and labor markets “which work against them by constraining mobility or increasing low quality jobs, especially in the informal sector where the largest proportion of the poor are trapped.”<sup>75</sup>

At the same time, in the World Bank’s words, “Sri Lanka has not realized the potential benefits of a decentralized system of economic management. In particular, the decentralization implemented in Sri Lanka [1987] has not permitted high quality demand-driven service delivery to local populations.... In addition there has been a tendency to centralize at the Provincial level, thus leaving the third tier local governments (Municipal councils, and Urban Councils) with [even] less capacity than previously.”<sup>76</sup>

Policy priority is placed on generating productive employment opportunities and increased rural income through faster and broader-based private sector-led economic growth. Good governance is also stressed, including privatization and decentralization of expenditure management. Initiatives along these lines, as well as a low income housing study, are supported by the ADB and other donors.

## **ii. AID Response**

AID is reducing its program and presence in Sri Lanka. It has refined its strategic objective (SO) structure to more directly address the protracted ethnic-based conflict and deteriorating democratic rights and institutions, to better reflect the purpose of humanitarian assistance, and to better define results under the competitiveness economic growth SO. The resulting program’s SOs have urban implications as follows: citizens’ rights (SO2) will focus on citizen participation in reform and supporting improved local governance; disadvantaged groups (SO3) will provide support to IDP and other war-affected populations through micro-enterprise development; increased competitiveness (SO4) will facilitate the development of comprehensive strategies for industry clusters.

It may be premature to attempt a vigorous strengthening of AID urban assistance now, given current conditions and immediate prospects, but the knowledge base accumulated from previous initiatives should be preserved for the future. It seems likely that addressing the problems of urban poverty and opportunities for economic growth in urban areas will become important at a future time of peace. The experience and relationships developed during the RUDO’s HG program for community-based urban environmental infrastructure projects should somehow be preserved. And planning for an urban program could begin usefully with cooperation from other regional or central AID programs of various types as soon as a few years from now.

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<sup>75</sup> World Bank, *Sri Lanka: Capturing Missed Opportunities*, 6/16/2000 p.36.

<sup>76</sup> Ibid, p. 25.



### c. Non-Presence Countries

**Pakistan** is currently receiving modest assistance from AID purely in the form of small interventions by two NGOs working with CBOs to improve social services delivery especially to women and girls and to strengthen institutions of democracy through election monitoring and policy advocacy. Pakistan could well resume as a conventional recipient of AID development assistance – as well as receiving military and ESF transfers. If so, its urban situation merits sustained attention. Urban population was projected to increase from 37 percent in 2000 (58 million) to 46.7 percent (104 million) in 2015, to 55.9 percent in 2030 (157 millions). By 2015, Karachi is projected to have 19.2 million inhabitants, followed by one city (Lahore) at around 10 million, three cities around 3.5 million and three around 2.5 million. Conditions of urban poverty, service deprivation, and lack of economic opportunity, combined with incompetent local governance – along Indian and Bangladeshi lines – seem likely to become extreme.

This daunting prospect faces a country hard put to invest in anything but military and internal security services, with international trade and investment depressed, with a recent history of deadening economic sanctions from the West, with a recent history of political instability and undemocratic regimes, and now with urban unrest in response to war on the Taliban. As a probable major donor, AID should prepare for this with analysis and mustering of technical resources as soon as possible.

**Afghanistan** was not highly urbanized before the recent wartime destruction of major settlements. It was 5 percent urbanized in 2000 and is optimistically projected to reach 40 percent by 2030 – optimistically, , because that level of urbanization would probably require some significant evolution of a modern industrial/service economy, with increased productivity and incomes.

The reconstruction agenda for Afghanistan has yet to be finalized but there are clearly some urban needs both in infrastructure and housing construction as well as developing strong local governments. In the infrastructure area, the World Bank has identified as two primary targets, the restoration of roads and transport infrastructure and reconstruction of urban water supply systems.

The need to rebuild a governmental structure for the country now provides a unique opportunity to carry out a deliberate policy reform effort to assign powers and functions rationally among levels of government. A good model for this might be the process employed in the Philippines following the Marcos regime where a thorough review of government functions led to a new Local Government Code (see the section on Philippines below). USAID played a key role in the Philippines policy dialogue and more recently has been similarly instrumental in Indonesia's decentralization efforts.

## C. East Asia

### 1. Indonesia

Indonesia enjoyed a robust economy for several decades, but the financial crisis of 1997 brought this to a halt and the ensuing political crises introduced dramatic changes. Today, Indonesia is very slowly beginning to emerge from four years of economic chaos. There is a small measure of stability but no guarantee that this will be maintained. It is more vital than ever that development support decisions be taken with this reality in mind.

The development challenges facing the country are immense. Poverty has sharply increased in the last four years. The safety net is still needed as are the continuing policy reforms to address the very deep faults that the financial crisis revealed. At the same time the health, education, and environmental needs of the country have increased. In addition, the need for good governance and for a broad coalition of forces to fight corruption at every level has become crystal clear.

Indonesia is one of the most urbanized countries in Asia and development decisions and political stability will increasingly be played out in urban areas.

#### a. Dimensions and Characteristics of Urbanization

##### i. Demographics

##### (a) Population

According to the UN, the total population of Indonesia in 2000 reached 212 million people, of whom 40.9 percent or 87 million were urban. The Government of Indonesia's (GOI) Biro Pusat Statistik (BPS) statistics show 203.4 million with about 40 percent urbanized.<sup>77</sup> While Indonesia has achieved a reduction in the overall population growth rate, the ADB estimates the urban population will continue to grow at 5 percent per year. The level of urban population in the country is projected to surpass 60 percent by 2030. National statistical projections have Indonesia 50 percent urbanized by 2010.

<b>Table 16: Urban Population of Indonesia, 2000-2030</b>			
	<b>Total Population (millions)</b>	<b>Urban Population (millions)</b>	<b>Percent Urban</b>
<b>2000</b>	212	87	40.9
<b>2015</b>	250	137	54.8
<b>2030</b>	254	180	63.5

Source: UN World Urbanization Prospects, 1999 Revision

With negative rural population growth, currently registered at -0.7, urban Indonesia is growing at a relative rate more than three times that of rural Indonesia. As seen in figures

<sup>77</sup> *UN World Urban Prospects, 1999 Revision* ; BPS (Central Statistic Bureau).

below and as noted recently in ADB research, “it is anticipated that Indonesia will face its highest urban growth rate during the coming 10-15 years period and this will have important implications for urban sector policy, including policies on planning, housing, infrastructure, and regional finance.”<sup>78</sup> The 15-year urban growth period, 2000-2015 is projected to generate an additional 50 million urban dwellers, or a 54 percent increase over current urban population levels. UN figures estimate a significant decline in urbanization in the following 15 years, possibly based on significant over-urbanization on Java, and the slowdown after the country has surpassed 50 percent urban.

**Table 17: Indonesia Comparison of Total, Urban and Rural Annual Population Growth Rate Projections, 2000-2030**

	Annual Total Population Growth Rate (%)		Annual Urban Population Growth Rate (%)		Annual Rural Population Growth Rate (%)	
	2000-2015	2015-2030	2000-2015	2015-2030	2000-2015	2015-2030
<b>Third World Asia</b>	1.2	0.8	3.2	2.6	0.2	-0.4
<b>AID Asia Countries</b>	1.4	1.1	3.8	2.8	0.4	-0.2
<b>East Asia</b>	1.6	1.0	3.9	3.2	0.5	-0.2
<b>Indonesia</b>	1.5	0.8	3.1	1.8	-0.7	-0.6

Source: U.N. *World Urbanization Prospects, 1999 Revision*

#### (b) City size, numbers and functions

At present there is no consensus over the definition of ‘urban.’ The BPS still uses the traditional method of population size as the basis for five categories of cities:

<b>Table 18: Number of Indonesian Urban Centers by Population Size Categories</b>				
<b>Megapolitan Areas</b>	<b>Metropolitan Areas</b>	<b>Large Cities</b>	<b>Medium Cities</b>	<b>Small Towns</b>
> 5,000,000	>1,000,000 to 5,000,000	>500,000 to 1,000,000	>100,000 to 500,000	20,000 to 100,000
1	7	14	90	418

Source: Regulation 47/1997 (in Asian Development Bank (May 2001), pp 1-6)

<sup>78</sup> Asian Development Bank. *Policy and Guidelines for Urban Sector Development in a Decentralized Environment, Final Report*, ([CITY?]: Asian Development Bank, 2001) p 1-6.

There is also official categorization by the GOI among cities by functional status:

<b>Table 19: Number of Indonesian Cities by Functional Status</b>		
<b>Function</b>	<b>Definition</b>	<b>Number of Cities</b>
<b>National Development Centers</b>	Cities with a gateway function, international roles, centers of transportation, national and regional centers, national or provincial government administration.	14
<b>Regional Development Centers</b>	Cities at the provincial or <i>propinsi</i> level serving as regional centers of economic, transportation or distribution activities.	55
<b>Local Development Centers</b>	Cities at the county or <i>kabupaten</i> level serving as centers of economic, transportation and distribution function.	460

Source: Government Regulation 47/1997 (in Asian Development Bank (May 2001), pp. 1-6,1-7).

### **(c) Significant characteristics of urbanization in Indonesia**

#### **(1) Issue of primacy and rapid growth**

The primacy index of Indonesia has increased from 1.25 in 1980 to 1.49 in 1990 to 2.67 in 1998 with 60 percent of the total national population residing in Java, a province representing only seven percent of the total land area of the nation. Densification of Java has resulted in the recognition of a super urban category or ‘super conurbation’ within Java known as ‘Jabotabek.’ Jabotabek represents the metropolitan region of Jakarta and is a combination of Jakarta and its surrounding cities and districts of Bogor, Tangerang and Bekasi. It was home to an estimated 16 million urban residents as of 2000. The extended urban region outside of Jakarta has the highest recorded urban growth rates in the country and growth is accelerating, with an increasing number of rural areas becoming urbanized. This is followed by other metropolitan areas and smaller cities, the latter growing at a slower pace. The following table shows conservative UN projections of growth of urban agglomerations through 2015 for a selection of cities.

**Table 20: Indonesia - Urban Agglomerations By Population Size and Growth Rate**

City	Estimates and Projections (thousands)							Annual Growth Rate (%)		
	1985	1990	1995	2000	2005	2010	2015	1985-95	1995-05	2005-15
<b>Bandung</b>	2090	2460	2896	3409	4007	4645	5241	3.3	3.3	2.7
<b>Jakarta</b>	6788	7650	9161	11018	13153	15336	17256	3.0	3.6	2.7
<b>Medan</b>	1390	1537	1699	1879	2102	2370	2653	2.0	2.1	2.3
<b>Palembang</b>	880	1033	1212	1422	1670	1940	2199	3.2	3.2	2.8
<b>Semarang</b>	812	804	795	787	814	877	968	-0.2	0.2	1.7
<b>Surabaya</b>	1887	2062	2253	2461	2727	3054	3405	1.8	1.9	2.2
<b>Makassar</b>	719	816	926	1051	1201	1375	1551	2.5	2.6	2.6

Source: U.N. World Urbanization Prospects, 1999 Revision

## (2) Rural to urban migration

Rural to urban migration has been the dominant contributing factor to urban growth in Indonesia in recent decades, particularly in Java. A cross-country study in 1985 attributed 55 percent of total urban population growth (net migration and natural increase, plus reclassification) to migration.<sup>79</sup> Migrants move toward urban areas for a variety of reasons, not just employment. In Indonesia, on average only 40 percent of migrants from rural to urban areas across all regions report seeking employment as their main reason for moving.<sup>80</sup> There is circular migration in and out of urban areas, for casual labor opportunities in the city and seasonal labor opportunities in the rural areas. There are also large commuting populations, traveling long distances to cities for jobs. Both make up floating populations that do not tend to get captured in rural or urban census data which gives them a certain invisibility in official statistics. Residency permits “surat jalat” are still required to be an official resident of a city. Illegal migrants have an incentive not to be counted and pay bribes to remain so. Migration includes large numbers of increasingly vocal young people, often from poor regions, demanding jobs and public response to the deficit of public infrastructure and services for urban populations. This migration trend is expected to continue for at least the coming decade, after which urban growth may be attributed more to population increases among residents rather than from migration.

## ii. Economic Growth

### (a) Urban formal economy – recovery from crisis

Employment plummeted with the 1997 economic and financial crisis. In 1999, urban unemployment was estimated at between 10.5 percent and 16.5 percent, or as high as 15 million out of a 91 million person workforce. In addition, under-employment is high.

<sup>79</sup>Ogawa, 1985 cited in Shareen Joshi “Urban Poverty in East Asia: Part I, background paper, June 2001 and footnoted in Kessides, C. footnote, p. 14.

<sup>80</sup>Kessides, C. *Urban Poverty in East Asia Region: A Preliminary Desk Review with Particular Focus on the Philippines, Indonesia, Vietnam*, July 16, 2001., pp. 21-22.

Under-employment in cities, persons working less than 35 hours, was estimated at 21 percent. While recovery in the formal sector was initially faster than expected, growth has been weakening (between 3 percent and 3.5 percent during 2000-2001) as have exports. Recovery must happen against a backdrop of major political and economic transition, with significant financial sector restructuring and labor reforms scheduled to occur simultaneously with a Government commitment to rapid implementation of nationwide decentralization of governance. The banking system functions poorly and most transactions are cash based. Without access to credit through the banking sector, SMEs, the backbone of the formal economy, cannot expand and generate the growth of jobs required. An outstanding characteristic of the Indonesian economy, documented by the International Labor Organization (ILO) studies, is that small and medium enterprises account for 99 percent of all business enterprises in Indonesia. In 1999 there were an estimated 39 million SMEs with an average annual growth rate of 6 percent. Recovery is also affected by instability in the country with violence erupting in seven provinces and entering the capital city with increasing frequency. According to a military analyst quoted recently in the *Jakarta Post*, “the prolonged economic crisis, resulting in increasing unemployment, has enticed local people to join terrorist groups.”<sup>81</sup>

The recovery in the formal economic sector is led by manufacturing in urban and peri-urban areas.<sup>82</sup> Industrial relocation and new investment are most apparent outside the major cities in the extended urban regions and primarily in Jobotabek.<sup>83</sup> But, as expressed by an influential Jakarta businessman, “businesses are having to adapt to a volatile operating environment” with “possible further deterioration in law and order as 2 million young people annually don’t find professional employment in the formal sector.”<sup>84</sup>

### **(b) Urban informal economy continuing to swell**

The economic crisis also brought about a significant shift of formal sector workers to self-employed status in the informal economy, with an accompanying decrease in the quality of informal work. Informal sector businesses employed more unpaid family workers. Children left school to help support their families.<sup>85</sup> Since 1998, the number of jobless adults, street youth and children has increased dramatically. Many are accepting positions as illegal migrants or becoming victims of trafficking or sex workers – lingering in the urban informal economy with the hope of gaining access to the formal economy.<sup>86</sup>

<sup>81</sup> Indonesia ‘fertile ground’ for terrorists. *Jakarta Post*, August 17, 2001, p A-7.

<sup>82</sup> ADB, May 2001, p 3-40.[details?]

<sup>83</sup> Kessides, C. *Urban Poverty in the East Asia Region: A Preliminary Desk Review with particular Focus on the Philippines, Indonesia, Vietnam (Draft)*. ([CITY?]: The World Bank, 2001) p. 17

<sup>84</sup> Tahija, G. “Indonesia: A Country in Transition.” Presentation, Asia Business Initiatives Meeting, Hong Kong, June 1, 2001.

<sup>85</sup> Sigit, H. and S. Surbakti. *Assessing the Social Impact of the Financial Crisis in Selected Asian Developing Economies, Executive Summary Indonesia*. ([CITY?]: Asian Development Bank, 1999) P. vi.

<sup>86</sup> USAID/Indonesia Results Review and Resource Request(R4), April 2001, p 10.

### **(c) Urban poverty**

The increase in poverty in urban areas between February 1996 and February 1999 was 126 percent, double the increase recorded for in rural areas over this period.

### **iii. Governance and decentralization**

The Government of Indonesia has been considering urban policy as a component of national development policy for several decades and spent much of the 1990s deliberating on an agenda for decentralization which they hoped would stimulate more balanced economic development across this vast archipelago country. In 1999, Indonesia (one of the world's largest centralized countries) passed the legal framework for national decentralization embodied in two laws. Law 22/1999 set forth a sweeping devolution of power to local governments in all areas (11 functions in all) except defense, religion, foreign affairs and debt and financial management; and Law 25/1999 restructured the financial relationships and arrangements and provided that 25 percent of all revenues be passed down to local governments, thus providing a significant share of all national revenues to be controlled at the local level. Local government budgets are projected to rise about 30 percent from 2000 to 2001.<sup>87</sup> The first free elections in 45 years were successfully held in October 1999, and the implementation of the national framework for decentralization for regional and local government autonomy began in January, 2001 as set forth in the laws.

## **b. The Immediate Issues**

### **i. Decentralization implementation**

Indonesia's massive nation-wide decentralization program—one of the largest in the world—has started implementation without a detailed transition plan. Implementing regulations for both laws have run into problems stemming from the lack of coordination between drafting teams. Further changes or adaptations to the system, with some degree of possible re-centralization (e.g. managing regional inequalities), may be expected from the recently installed Megawati government, though they have vowed to push ahead with reforms.<sup>88</sup>

A World Bank advisor to Indonesia noted recently that “governance is a neglected component of local government reform in Indonesia and the critical element required to ensure that the alleged benefits of decentralization are realized.” Experimentation is now happening at the various tiers of sub-national government – province, district, city and town – which needs to be shared widely among local governments. These early pilots and the learning curve will drive local government reform. At the same time, the national

<sup>87</sup> *Policy and Guidelines for Urban Sector Development in a Decentralized Environment, Final Report, May 2001*.: Asian Development Bank, 2001) p. 1-31.

<sup>88</sup> “Mega vows to keep to commitments,” *Straits Times*, Singapore August 17, 2001.

government is considering how to undertake a monitoring and advisory role rather than one of direction and control. Issues to be confronted include the absorption of over 2 million central government civil servants into 400 local governments. Multiple levels of government need considerable support through this major democratic transition, through a massive capacity building effort for sub-national and particularly local governments. With its emphasis on broad-based local participation, the role of local NGOs and CBOs is important; yet, unlike in countries in South Asia, private urban NGOs are underdeveloped in Indonesia. They can be a critical player in capacity building, strengthening of civil society (which remains weak following years of suppression), and advocacy for reforms most important to local people.

Another important challenge is in participatory local economic development planning and execution. Local government authorities are given responsibility for managing local investment and guiding local economic development for which they are poorly prepared. Historically, there was lack of connection between urban sector policy and economic development policy. Local governments have been given grants earmarked for investment with no economic development context at the city or regional level. Sound local economic development strategies, tied to prioritized capital investments and good local management and governance practices attractive to investors and businesses, will be key to attracting investment and generating new jobs.

## **ii. Health**

### **(a) Household water**

Only 36 percent of the urban population has access to piped water. A 1992 study showed a 73 percent rate of *E. coli* contamination of tap water. There is no indication of improvement since 1992. There are sharp inequities in the sources and costs of water between the poor and the better off. In the City of Jakarta, all shallow wells are contaminated. Forty-two percent of the poor purchase water at exorbitant rates. Over 50 percent of purchased water is contaminated with *E. coli*. Households altogether spend more than \$50 million annually, 1 percent of the Jakarta's gross domestic product, to boil water – both an economic and an energy loss. The health consequences due to lack of safe water have been estimated to approach \$1 billion a year plus the loss of labor productivity due to illness and the added strain on tenuous family livelihood of the urban poor when income earners fall ill. While Indonesia has made great progress as a country on the water issue, it is not keeping pace with the growth of urban populations.

### **(b) Human waste and solid waste disposal**

Indonesia has one of the lowest rates of urban sewerage coverage in Asia. Only seven cities have partial sewerage systems with less than 10 percent of their populations are connected to them. The existence of even partial systems has inhibited the development of local solutions, using more cost-effective technologies adapted to densely-settled and unplanned urban areas. About 40 percent of the population, in the bottom third of the expenditure curve, use open field, ground hole or water bodies, creating a huge and



growing health hazard and progressive environmental degradation of surface and ground water. In Jakarta, 30 percent of the poor discharge waste directly into water bodies. Toilets or latrine facilities are in increasing use, but most are unsanitary and do not function for safe treatment of human waste. Blockage or absence of drainage systems exacerbates the health hazards and floats waste during rains. Where septic systems exist, they are often poorly designed and built and not maintained in a manner to protect human health.

Severely inadequate solid waste disposal further contributes to precarious public health conditions in Indonesian cities. In most urban areas, only 50 percent to 60 percent of waste produced is collected. Uncollected waste that isn't dumped in water bodies or open spaces and drains is typically burned, releasing an estimated 8 percent to 20 percent of all hydrocarbons observed in Indonesian cities.

### **(c) Air quality**

Air pollution in Jakarta ranks among the worst in the world and affects population in all income strata, though impacting the poor most severely. Estimated costs to health have been placed at 10 percent of the city population's combined income. The costs to businesses are high, due to absenteeism caused by air-pollution related illness such as pneumonia, business delays created by traffic congestion and the lower desirability of Jakarta as a residence for foreign management and staff.

### **iii. Trafficking, drugs, corruption and increasing violence**

The continued rapid growth of urban populations, many of whom can not be absorbed by the formal economy, and the low remuneration in the informal economy, have driven more and more migrants and young people into illicit activities such as drug running and drug use (as high as 34 percent in some areas), prostitution, petty crime and recruitment by terrorist networks. These populations are both a health and a political threat. As noted in the Mission's R4, transient laborers are the most frequent consumers of commercial sex in urban slum areas and informal brothel zones. They carry sexually transmitted infections back to rural areas. Increased violence linked to terrorism and ethnic unrest in several provinces is generating large numbers of displaced citizens who become the problem of local governments—threatening local and regional stability. Part of the solution is more and better jobs, and another part is a sound system of law and order. The Government historically has tolerated high levels of corruption in the Government, often linked to crime. With powers and resources passing down to local governments, corruption may be expected to expand. Police practices historically have compromised sound principles of law and order. The transition to local law and order forces that are accountable to local populations will take time and effort to evolve.

### **iv. Urban land and property market distortions**

As in other countries in Asia, Indonesia has managed urban growth poorly, caused in part by poorly developed and distorted land and real estate markets. There are huge numbers

of unregistered land transactions and land thefts are frequent. Citizens and businesses lack secure tenure to their real estate. These unstable conditions in real estate markets figure significantly in the financial crisis.

### **c. The Donors' Changing Role**

#### **i. Emergence of donor 'country' urban strategies**

Donor country strategies are being restructured to respond to the massive challenge of implementing the national decentralization policy and its legal and regulatory framework. There is particular focus on local governments and civic participation. Decentralization process is a theme around which donor cooperation has coalesced, facilitating joint activities.

##### **(a) Asian Development Bank**

In its Indonesia Country Assistance Plan, 2001-2003, the ADB states that “decentralization is the key institutional reform that needs to be supported.”<sup>89</sup> Following years of problematic infrastructure project implementation, executed through national government relationships, the ADB is shifting to broader goals and programs for urban poverty reduction through social development initiatives. ADB now endorses community-based participatory development to ensure a demand-driven approach, encourages public private partnerships in basic services with particular attention to infrastructure and services that target the urban poor, and stresses enhancing the capacity of local governments and also working towards balanced regional development. The ADB will continue to engage on urban environmental infrastructure and services of water supply, sanitation, drainage solid waste management drainage and shelter and slum upgrading. Importantly, they will support development of an urban sector strategy, studies on urban poverty, housing finance for the urban poor, urban water supplies and sanitation.

##### **(b) The World Bank**

The World Bank is rethinking its approach to urban development in the context of national decentralization in Indonesia. World Bank has developed preliminary thinking for a new urban local governance reform project. Traditionally focused on hard infrastructure projects executed through national agencies, they are experimenting with a ‘city development strategy’ approach which is a broad-based stakeholder-driven process at the local government level determined to reach consensus on a local social/ economic/ financial development strategy, a prioritized investment plan and linking this to sources of development capital. They are seeking an integrated multi-sectoral approach, which requires all development partners to think and operate in new, more comprehensive and collaborative ways not bound by the traditional sectoral development project approach.

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<sup>89</sup> *Country Assistance Plan 2001-2003*. : Asian Development Bank, p. 17.

The city development strategy approach recognizes the value of addressing broad-based equity and social cohesion issues at the local level in the context of developing civic society and democratic functions – areas generally outside traditional World Bank emphasis. This approach recognizes the need for major public sector reforms at the sub-national level in multiple tiers of government and including public-private sector interactions. Constrained by World Bank by-laws from lending sub nationally, the Bank is using the CDS approach to explore alternatives to lending to national level agencies that traditionally have been unresponsive to local governments. The CDS approach may also provide a useful vehicle for generating creative alternatives to the municipal development fund approach to sub-national lending, which has been criticized elsewhere for retarding development of market mechanisms for meeting the investment credit needs of subnational governments. Many of the World Bank projects in Indonesia are coming to a close and the World Bank is working to launch its next cycle and hopes to do so in a manner that fully supports the intent of decentralization in Indonesia.<sup>90</sup>

### (c) **Bilaterals**

While AID has taken the lead in direct assistance to local governments in decentralization, the German aid program (GTZ), operating in Indonesia for 30 years, is also very knowledgeable and active. It has already incorporated a new program segment on “governance and regional development,” which provides support for decentralization measures, capacity building for local governments and legislatures, and soon will launch a new good governance support initiative.

## **d. The Current AID Situation**

### **i. Portfolio and pillars – Mission performance on urban issues**

USAID-Indonesia launched a transition strategy to cover the five-year period 2000-2004 in May 2000. The *Transition to a Prospering and Democratic Indonesia, Country Strategy Paper* presents a coherent and integrated strategy in support of decentralization as the vehicle through which “institutionalization of democracy” and “the resumption of economic growth” in the country may occur.<sup>91</sup> A review of this strategy and the results review and resource request document for April 2001, plus detailed discussions with RUDO, give a clear understanding that USAID-Indonesia has already made a strategic, long-term commitment to focus on decentralization and local governance through which it will have impact on critical issues of urbanization.

<sup>90</sup> Indonesia Urban Local Governance Reform Project, Project Concept Document (draft), Unpublished, The World Bank, 2001.

<sup>91</sup> *Transition to a Prospering and Democratic Indonesia Country Strategy Paper*. : USAID/Indonesia, 2000.

### **(a) Democracy and Local Government**

USAID- Indonesia has positioned an entirely new SO, “decentralized and participatory local government,” at the core of its strategy. While it combines both former RUDO and Democracy and Governance structures and activities, the SO rests largely upon a foundation of comparative advantages built under previous urban programming in local government finance, service delivery, urban management practices, association development and local government investment planning.

Under management of RUDO, USAID-Indonesia assumed important leadership in donor support to GOI in the critical years leading up to passage of the laws and launching of the decentralization process. The focus and clarity in the Mission’s new strategy support continuation of vital processes of reform already well begun under a prior special objective. Former activities are carried over and expanded such as support to the Ministry of Finance and Ministry of Home Affairs and Regional Autonomy on fiscal and administrative decentralization, pioneering work with the GOI to design a participatory medium-term development planning process (evolved to the PDPP) for local governments through which they retain and exercise local level development decision-making, expanding work under BIGG to create and support evolution of independent associations of local government, and continuation of the AID Resource Cities Program linking individual Indonesian cities with U.S. cities. New activities have been added to support local governments directly to reorganize and produce organizational structures that match capabilities to the new authorities and responsibilities of government, and to assist local governments to develop participatory budget and financial management capacities for local decision-making.

Under the new SO, the former D&G operation is refocusing from national level democracy issues to the local government level, working with newly elected bodies.

### **(b) Health**

#### **(1) Mother and child health and nutrition**

The Mission’s SO on “health of women and children improved” appears to have operated without explicit recognition of urban health problems, their causes and effects. The study team did not observe indications of intended changes or expansions in its programming to address directly the health conditions and requirements of growing proportions of urban poor. There is reference to several initiatives that might support decentralization of the health services system. For example: a health coalition consisting of NGOs, local health boards and advocacy groups to develop a public information and media program; and the National Nutrition and Health Surveillance System, which is intended to help local governments monitor health and prioritize resources for health services delivery. The heaviest emphasis remains, however, on national government agencies or functions, rather than on support to local governments who now have new responsibility for delivery and management of local health services.

## **(2) STD/HIV/AIDS and other infectious diseases**

The Mission recognizes the growing number of people at high risk to HIV/AIDS, such as sex workers, drug users, transient laborers, and foreign port workers – all of whom largely operate or reside in cities. A new HIV/AIDS program was launched in FY2000 to prevent STD/HIV/AIDS transmission among high-risk populations in 10 major cities. And the Mission is asking that Indonesia become an “intensive focus country” for HIV/AIDS prevention.

### **(c) Environment and natural resource management**

Under national resources management, there is recognition that local government does control significant natural resources in that these governments manage land resources in the four miles beyond their city or town territories. There is collaboration between Natural Resources Management (NRM) and DLG – sharing of a project office in Manado and working on solid waste collection initiatives with local communities. The NRM is working on reducing emissions from transportation and phasing out leaded gasoline, particularly in Jakarta, supported by USAEP resources. Partners are at the national level.

### **(d) Economic growth**

The Mission’s economic growth SO is largely funding economic advisors at the national level. The Mission has established a network of 23 universities to provide training, workshops, research activities and to develop a cadre of local experts to help national and local government institutions better understand economic issues in the context of decentralization. It is unclear just how this resource will serve the interests of local governments, which are in great need of help in planning and analyzing local economic development strategies. Indeed, there is an excellent opportunity for collaboration with the field activities of the PERFORM project which is working with local governments across Indonesia in developing capital investment plans. In another field, the SO work on policy and legislation to open up access to economic opportunity for SMEs could ultimately have positive results on expanded job opportunities in cities.

### **(e) Crisis, disaster response and humanitarian assistance**

This Special Objective includes the issue of food insecurity in urban areas of Jakarta, Surabaya and Makassar. There might be opportunity for fruitful collaboration on issues of disaster preparedness and response and on food security matters with local urban governments between DLG and the disaster response SO. Recently the RUDO has taken the initiative to connect the associations of local governments through the Institute of Technology Bandung with the OFDA-funded regional Asia Urban Disaster Mitigation Program in Bangkok, which is expected to result in relevant work with local governments on disaster preparedness, especially for man-made disasters, which are increasingly prevalent in highly populated urban areas and destabilized regions of Indonesia.

## **(f) Energy**

The energy program is organizing to work with local governments on licensing of electricity businesses and management of non-oil and gas resources. As expressed in the R4, revenue sharing from these resources and regional energy pricing are two key issues under decentralization “with potential to be a source of significant dissent and social discord if not properly addressed.” There also may be expected reconsideration of the extent of decentralization of these authorities under the new Megawati Government.

## **e. Conclusions**

Critical issues and needs have emerged from rapid urbanization in Indonesia: marginalized and under-employed labor, inadequate provision of affordable, potable water supplies; unsafe sanitation and solid waste disposal services; pollution of surface and ground water resources from human and industrial effluent; traffic congestion and inefficient public transportation not keeping pace with growth; poor pollution control measures; public health services that don’t reach the urban poor; high risk populations spreading infectious diseases; rising crime rates, including human trafficking, drugs, and domestic violence. It appears there has been little preparation to mitigate or provide rapid response to disasters affecting densely populated areas. Unplanned private urban and peri-urban economic development investments are not linked to public investment in infrastructure and services. All of these challenges—and more—fall within the purview of newly empowered urban local governments of Indonesia. As expressed in the Mission’s new democracy local government program overview, “the success of Indonesia’s decentralization reforms hinges on the capacity of local governments to implement their new responsibilities.”<sup>92</sup>

## **Strengths**

### **(a) Recognizing synergy in DLG program design**

Through its new strategy, the Mission recognizes that what is needed in Indonesia is not a stand-alone urban program, but a focus—through the lens of decentralization—on effective local governance. Thus, program elements under the democracy local government program are focused on work at various levels of government and among a broad base of stakeholders/partners to implement systems of governance that will successfully address a variety of urban development issues. Local governments have become more responsible for addressing many of these issues, following the groundbreaking 1999 legislative reforms. This new SO combines concerns about local government fiscal and administration management systems, services delivery, and investment functions and economic development planning with competencies of the local government electoral process, roles of elected officials and systems of transparency. This combination and coordination of “democracy” and “governance” concerns, often treated separately in AID program design, should enable the Mission to establish a sound foundation that exploits potential synergies between national level reform, development

<sup>92</sup>*DLG/SO10 Program Overview.* (: USAID-Indonesia, 2001) p 10.

of service delivery and management competence in local governments, and mechanisms of civic and political accountability for local government performance in newly devolved functions such as . health, education, and natural resources management.

### **(b) Resident urban and local government expertise**

RUDO's programs in Indonesia have produced high-performing components of the Mission's bilateral program with valuable AID/Washington and Congressional visibility. The cost to the Mission's OE funds over the years has been negligible. While the RUDO has merged its operations incrementally into the bilateral program, the two RUDO direct hires and two FSN hires are still OE funded by AID/W with only US PSCs and local staff split-funded between Mission and RUDO program funds. The physical presence of RUDO in Indonesia has given the Mission an advantage that most other Asia missions don't have – the benefit over years from resident urban development and local government management systems expertise provided by the RUDO.

### **(c) Regional resources and programs**

Through the RUDO presence, the Mission and Indonesian partners have benefited more than other countries from RUDO regional resources for the conduct of regional workshops on vital urban governance issues and best practice, international professional exchanges, and strengthening of local partners such as the new associations of local government and the local technical institutions and think tanks such as the Institute of Technology Bandung and the Asian Institute of Technology – all of whom have essential roles to play in building local government capacity to implement decentralization policy. RUDO's presence has also leveraged other regional program resources such as the U.S. Asia Environment Program, USAEP and the Bangkok-based regional Asia Urban Disaster Mitigation Program.

## **Weaknesses**

### **(a) Key sectors missing local government focus and urban issues**

In its strategy, the Mission recognizes “decentralization as a cross-cutting issue affecting other elements of the mission strategy including health, natural resource management, economic growth and democracy. Adequate resources to generate successful results in decentralization will positively impact efforts in these other mission priority areas.” Notwithstanding, the study team did not observe indications of cross-sector or complimentary programming or evidence of exploitation of cross-sectoral synergies within Mission sectoral programs. For example, the health program components addressing mother and child health, family planning and nutrition gives no indication of awareness or treatment of growing serious health issues of the urban poor. Another example is in the fields of crisis, disaster response and humanitarian assistance. OTI, OFDA and WFP working in destabilized regions of Indonesia could exploit potential synergy with DLG work with local governments in these areas as ultimately it is the local governments that have to cope with displaced populations, the security concerns for

their populations and reparations of public assets and services damaged through local ethnic violence.

### **(b) Weak analysis of multi-sector urban and local government issues**

As pointed out by the ADB, there is “little information available to urban policy makers about the changing characteristics of urbanization in Indonesia.”<sup>93</sup> Most donors over the years have been working through projects whose data collection and analysis systems have usually been disbanded or lost upon the completion and closing of the project. The Government of Indonesia is implementing a new set of strategic planning tools for the regional and local government autonomy prescribed by decentralization laws. As part of this process, the National Planning Agency, Bappenas, is expected to undertake development of a multi-agency urban “sector” strategy, representing urban policy and coordinated sector operational strategies. Rather than a snapshot, this is meant to be an on-going process with continuous updating and dissemination of data and analysis and provision of guidance to local area urban and economic development planning. The Mission needs to consider its program enabling cross-sector contribution to and support of the government’s need at the national and local government level for a “continuing process” of focused data collection, analysis and dissemination.

### **(c) Local economic development and rural-urban relationships**

Local economic development is one of the important new functions of local government, one that is least understood because of the tradition of highly centralized control of investment decisions by national government. Most of the investment focus of national and regional governments over the years has been on physical infrastructure investments. Investments have historically shown little appreciation of or linking with the dynamics of local and regional economic development, which has been largely driven by the private sector. While there have been analyses of regional economies, there has been little intelligence on the role of the urban economy in national development. In Indonesia, where most economic growth is happening in urbanized or urbanizing peri-urban regions around major cities and along urbanizing transportation corridors between cities, there is an urgent need better to understand the nature and patterns of urbanization, economic growth and the urban-rural dynamics. New industrialized areas often sit beyond large city administrative boundaries or in areas where governance is confused or ignored because of overlapping authorities. There needs to be a better appreciation of the changing role and structure of agricultural sector productivity and its relationship with manufacturing and services industries competing for space and labor. AID has historically supported little of this analysis over the years, but it is most important to guide future public investments and to support economic growth.

### **(d) RUDO gradually losing the “R”**

The participation of Indonesian experts in regional forums with peers from across Asia to share ideas and practices has had an important role in stimulating decentralization

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<sup>93</sup>*Policy and Guidelines*, p. 2-11



reforms, in strengthening indigenous expertise, and in the emergence of local government leadership that has the confidence to move boldly forward under regional autonomy. RUDO has been instrumental in organizing regional forums that produce country specific analysis on urban and local governance issues and in facilitating the building of important knowledge-sharing networks in the region among urban/local governance experts, national and local NGOs/CBOs, and local administrative and elected government officials. With the shrinking of the regional resources of the RUDO, its /dominant focus on the Indonesia program and uncertainty over its continuation as a separate element within the AID structure, the valuable function of intellectual capital generator and distributor for the region is threatened.

## **2. Philippines**

The Philippines is slowly recovering from the 1997 Asian financial crisis. While much progress has been made and poverty indicators have improved, there remain massive problems to be addressed. Education and health need to be strengthened; new infrastructure is sorely needed, particularly in the provinces; corruption, governance, and promotion of the private sector are each priority areas.

The country has become one of the more urbanized countries in East Asia, but lags well behind in the management of this urbanization. As illustrated below in this section, metro Manila is virtually ungovernable. A progressive decentralization legislative framework was put in place in the early 1990s that emphasized the role of local government units, but since then little has been accomplished to make this a reality and to strengthen local government.

Most economic development in the Philippines now takes place in urban areas. The continuing failure of urban areas to function presents a fundamental threat to the Philippines realizing its economic potential.

### **a. Dimensions and Characteristics of Urbanization**

#### **i. Demographics**

##### **(a) Population**

Figures on urbanization in the Philippines vary, but they all show extensive urbanization. The majority of the Philippine population (58.6 percent by UN estimates) lives in urban areas.<sup>94</sup> This is higher than any other AID-assisted country in Asia, save Mongolia. This urban population was estimated at 44 million in 2000. The ADB estimates the urban population to be growing at an annual rate of 5.14 percent, one of the highest rates of urbanization in the world.<sup>95</sup> The Government's most recent Medium Term Philippine

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<sup>94</sup> *UN World Urbanization Prospects: 1999 Revision*

<sup>95</sup> *Country Assistance Plan, 2001-2003*, p 14.

Development Plan confirms this rate of about 5 percent yearly, which is more than double the national population growth rate.”<sup>96</sup>

<b>Table 22: Total and Urban Population of the Philippines, 2000-2030</b>			
	<b>Total Population (millions)</b>	<b>Urban Population (millions)</b>	<b>Percent Urban</b>
<b>2000</b>	76	44	58.6
<b>2015</b>	97	66	67.8
<b>2030</b>	114	84	73.8

Source: *UN World Urbanization Prospects, 1999 Revision*

UN figures, which tend to be more conservative than national estimates, point to a decline in rural population, currently registered at -0.7, and an urban growth rate of 2.6 percent. Thus urban Philippines is growing at rate more than three times greater than that of rural Philippines. High birth rates (2.3 percent nationally and 2.9 percent in urban areas) contribute to population growth in urban areas. The country has no population policy. According to UN estimates, an additional 20 million urban dwellers are expected between 2000 and 2015, a 50 percent gain. By 2015, the Philippines will be almost 68 percent urban. Urban growth is later projected to decline during the following 15 years, through 2030, as the bulk of population will have already shifted from rural to urban areas.<sup>97</sup>

<b>Table 23: Total, Urban and Rural Annual Population Growth Rates, 2000-2030</b>						
	<b>Total Population Annual Growth Rate (%)</b>		<b>Urban Population Annual Growth Rate (%)</b>		<b>Rural Population Annual Growth Rate (%)</b>	
	<b>2000-2015</b>	<b>2015-2030</b>	<b>2000-2015</b>	<b>2015-2030</b>	<b>2000-2015</b>	<b>2015-2030</b>
<b>Third World Asia</b>	1.2	0.8	3.2	2.6	0.2	-0.4
<b>AID Asia Countries</b>	1.4	1.1	3.8	2.8	0.4	-0.2
<b>East Asia</b>	0.9	0.5	2.9	2.1	-0.2	-0.6
<b>Philippines</b>	2.1	1.1	2.6	1.7	-0.1	-0.3

Source: *U.N. World Urbanization Prospects, 1999 Revision*

## **(b) City classification, numbers and definition of urban**

### **(1) Classification of urban areas**

Under the Local Government Code, there are three classifications of urban areas: *municipalities* that are in effect counties and still under the management and budget of provinces; *component cities* that have some, but not all, delegated functions; and the largest cities, known as *chartered cities* (also *highly urbanized cities* in the census), that in principle are fully delegated. Both of the latter categories benefit from substantial

<sup>96</sup>Chapter 12: creating competitive and livable cities and urban areas. *Republic of the Philippines, Medium Philippine Term Development Plan, 1999-2003*. : Republic of the Philippines?,) p. 12-1.

<sup>97</sup> Kessides, Christine. *Urban Poverty in the East Asia Region: A Preliminary Desk Review with particular Focus on the Philippines, Indonesia, Vietnam*. Draft report, The World Bank, . p. 10.

government transfers which have de-motivated a good percentage of local government units from working to improve own-source revenues.

## **(2) Definition of ‘urban’ and growth of numbers of cities**

At present, there is no national consensus on the definition of what constitutes an “urban area.” The standard definition of urban area, based on modest levels of population density of 500 to –1,000 residents per square kilometer, was not included in the 2000 census because the definition was considered to be no longer relevant. Consequently, the National Statistics Office no longer offers urban growth trend analysis that was provided in the earlier censuses. The decision to drop the definition of urban may have been politically driven in part because of the strain on the national transfers budget, the Internal Revenue Allotment (IRA). The IRA formula had driven a creeping growth in numbers or re-classification of municipalities to ‘component cities’ as a means of significantly increasing their IRA such that the number of cities (62) classified as either component or chartered cities at the time of passage of the Local Government Code in 1991 has grown to 120 today.

### **ii. Significant characteristics of urbanization in Philippines**

#### **(a) Issue of primacy and rapid growth**

The biggest problems of urbanization are generated by the enormous concentration of the country’s urban populations. Metro Manila and its surrounding regions account for an estimated 46 percent of the total urban population of the Philippines, or 20.2 million people. Within that, the smaller National Capital Region (NCR) includes 12 chartered cities and is populated by an estimated 9.9 million. It has a population density of 15,617 people per square kilometer, as compared to a national average of 255 people per square kilometer. Neighboring Central Luzon Region has a density of only 441 people per square kilometer, still the highest density outside of the NCR. Within the NCR, density of urbanization ranges from 5,520 people to 88,617 people per square kilometer. These densities are among the highest in Asia.

The NCR’s living conditions have become so poor – due to air pollution, congestion, lack of or poorly maintained public services, high crime and rising unemployment – that both businesses and populations are moving outside the region. This is reflected in negative population growth rates for some of the NCR cities during 1995-2000. Except where foreign direct investment is financing infrastructure, the population decrease in NCR is flowing into surrounding regions, which are even less prepared in terms of basic infrastructure and social services to receive them.

#### **(b) Rural to urban migration from poverty to poverty**

Urban centers are experiencing hyper-urbanization with people moving in faster than they can be absorbed. Inadequate agricultural land reform is only one reason for increased urbanization. In-coming rural people, many with low education and under-

skilled, are not necessarily benefiting from the economic growth that has happened in urban areas. Analysis of the dynamics of the informal economy was not obtained for this study, but is urgently needed for a better understanding of the economic dynamics of the new urban poor. While many have moved out of worse income and expenditure based poverty, they face the non-income aspects of urban poverty – basic services and housing deficits, wretched health conditions, rising violence – and the failure of many to integrate into the formal economy. This has left many urban poor socially excluded and economically marginalized from the potential benefits of urbanization.

<b>Table 24: Philippines – Cities of National Capitol Region By Population and Growth Rate</b>							
	<b>Population (thousands)</b>				<b>Annual Growth Rate (%)</b>		
	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>1990-95</b>	<b>1995- 2000</b>	<b>1990-2000</b>
<b>NCR</b>	9,454	9,933	11,241	11,927	3.30	1.06	2.25
<i>Cities</i>							
<b>Las Pinas</b>	413	473	712	886	6.37	2.93	4.75
<b>Manila</b>	1,654	1,581	1,454	1,327	0.62	-0.97	-0.13
<b>Makati</b>	484	445	489	475	1.25	-1.80	-0.18
<b>Mandaluyong</b>	286	278	297	292	2.75	-0.63	1.16
<b>Marikina</b>	357	391	455	492	2.68	1.96	2.34
<b>Muntinlupa</b>	400	379	632	755	7.01	-1.12	3.14
<b>Paranaque</b>	391	450	509	556	4.57	3.03	3.85
<b>Pasig</b>	471	505	587	628	3.32	1.50	2.42
<b>Valenzuela</b>	437	485	595	664	4.81	2.27	3.62
<b>Caloocan</b>	1,023	1,177	1,352	1,487	5.64	3.06	4.43
<b>Pasay</b>	409	355	425	419	1.96	-2.97	-0.37
<b>Quezon</b>	1,989	2,174	2,260	2,319	3.33	1.92	2.67
<i>Municipalities</i>							
<b>Malabon</b>	347	339	420	443	4.12	-0.54	1.92
<b>Navotas</b>	229	230	266	276	3.82	0.13	2.08
<b>Pateros</b>	55	57	56	55	1.37	0.81	1.11
<b>San Juan</b>	124	118	107	96	-0.40	-1.15	-0.75
<b>Taguig</b>	381	467	623	755	6.93	4.45	5.77

Source: 2000 Census of the Philippines as of May 1, 2000 and 1995 Census-based City / Municipal Population Projections for 2005 and 2010.<sup>98</sup>

<sup>98</sup> 1995 Census-Based City/Municipal Population Projections, National Statistics Office, Republic of Philippines.

## ii. Economic growth and urban areas

### (a) Urban contribution to GDP

The Philippines has been transforming from a predominately agricultural to an industrial and increasingly service-based economy. The share of GDP from industry and services is estimated to have risen from 28 percent in 1965 to 77 percent in 1990 to 81 percent in 1998. The National Capital Region of Manila is estimated to account for one-third of the nation's GDP, and urban areas in most regions account for more than half of their respective Gross Regional Product. However, slow progress in implementing economic reforms and slow decentralization of governance, coupled with mounting infrastructure deficits and pollution in urban areas have depressed investment and productivity of the industry and services sector, contributing to low levels of economic growth since the Asian Economic crisis. The national GDP growth rate in 1999 was only 3.2 percent.

### (b) Local economic development function

Under the Local Government Code, the local government units (LGUs) have the responsibility for planning, directing and stimulating local economic growth. This new role, underscored in President Arroyo's recent State of the Union address, is little understood, as are the implications for inter-LGU, provincial and regional cooperation and competition. Most LGUs do not do or know how to do strategic economic development planning or prioritization of investments. Many public investments, under a three-year term mayoral system, are said to be made for visibility rather than productive or quality of life impact. Populations in poverty tend to be looked at by politicians as charity work or simply as potential voters rather than as a segment of society that should be an economically active and dynamic resource to a city.

### (c) Urban poverty

Analysis of rural and urban areas showed lower income and expenditures based poverty and *depth* (distance below the respective poverty line) of poverty in cities. The *inequality* (divergence of incomes within an area using Gini indices) of poverty in urban areas is higher.<sup>99</sup> One significant issue with this type of measure for urban areas is that it does not reflect the often sub human conditions in which the urban poor are forced to live or other related livelihood security risks. Nor are costs of meeting basic human needs on the urban market usually fully evaluated against a national poverty line.

The view of UNDP and UNCHS is that the high degree of current urbanization and the fact that virtually all population growth is occurring in urban areas mean that poverty is "increasingly an urban problem."<sup>100</sup> The World Bank's poverty figures show that

<sup>99</sup> *The Philippines Poverty Assessment*, (The World Bank, ) p. 24.

<sup>100</sup> *Operationalizing the National Urban Development and Housing Framework, Project Description Document for UNCHS Support Services for Policy and Programme Development (SPPD) Project*. (United Nations Development Programme, Philippines, ) p 2.

poverty reduction during 1985-1997 was much deeper in non-agricultural services activities of industry and services, mostly based in urban or urbanizing areas, than in agriculture. Their observation is that for sustained poverty reduction impact, the country needs both better growth performance in agriculture and a structural shift of populations out of agriculture into higher productivity activities.<sup>101</sup>

### **iii. Governance: slow implementation of local government code**

#### **(a) Reluctance to address urban issues and guide urbanization**

The Local Government Code, which set forth the legal framework for a national program of decentralization, was passed in 1991. Decentralization has been mandated for a decade, yet the intergovernmental system is still largely nationally driven. Only within the last three years has the national government begun to pay increased attention to national urbanization trends and the need for national policy guidance on urban development, apparently driven in part by highly visible social unrest in Manila among urban slum populations. In 1999, two key national institutions, the National Economic Development Authority (NEDA) and the Housing and Urban Development Coordinating Council (HUDCC) developed—simultaneously and without apparent coordination—the *NEDA National Urban Policy Agenda* and the *HUDC National Urban Development and Housing Framework, 1999-2004*. These documents were merged into one guidance document, the updated *HUDC National Urban Development and Housing Framework, 1999-2004*, by means of a large national steering committee and regional workshops process. According to various observers of this process, the resulting document, meant to guide planners, policy makers and other stakeholders, has had little follow-up and remains largely unknown to local government units.

For first time, the Government will accord priority to the urban sector by incorporating an “Urban Chapter” in its Medium Term Plan 2001-2004 under its National Urban Development Policy but the content appears skeletal. Observations collected by the study team suggest that the Filipino development process remains dominated by top-down, static national planning driven by individual national sectoral departments competing for national budget allocations.

#### **(b) Changing the view of what is ‘urban’ in the Philippines**

There is little apparent appreciation for the differences of urban space and resources among regions – differing resource endowments and economic potentials, ethnic and cultural diversity, various settlement patterns and relationships. Thus, there appears to be an undifferentiated national view of urban Philippines, driven largely by immediate realities of the Metro Manila region. The League of Cities of the Philippines (LCP) is attempting to change this monolithic view. Given the archipelago nature of the Philippines, the LCP has launched a new strategy of “island cluster roundtable dialogues on poverty reduction through improved governance” for each island group – the Visayas

<sup>101</sup> Kessides, p. 26.

cluster, the Luzon/NCR cluster, the Mindanao cluster. LCP hopes to stimulate stronger local identity, local advocacy to speed up implementation of the Local Government Code, and locally-driven strategic planning and development. The City Development Strategy initiative supported by the Cities Alliance and the World Bank is active now in more than 20 cities. It attempts to rally cities to organize broad-based stakeholder groups to generate, collaboratively, medium- to long-term strategic plans for local economic and social development tied to appropriate programming and prioritization of investments.

### **(c) Decentralization: Institutional capacity and politics**

There is apparent confusion regarding the roles of the many national institutions claiming responsibility for guiding local government units, among provinces; between provinces (land areas that may include towns and component cities) and their municipalities; and within and between chartered and component cities. (The latter have fewer authorities than the largely independent chartered cities.)

In this highly politicized climate, which functions mainly through networks of elites, progress seems to occur mostly where there is strong local leadership – led by politicians with influence in the national network and often having higher (national) aspirations. Given the political nature of the system and the three-year term limit for mayors, a change in mayoral leadership means that an LGU's management structure, systems and programs are often not sustained. There is instability in the system and no continuity of a professional core. There remains a large gap in management organization and capacity at the LGU level.

These institutional problems contribute to the problem of largely uncontrolled and unplanned urbanization and little appreciation of or capacity to cope with the complexities and processes of urban development. The study team did not observe effective national guidance on urbanization, unlike the case of agriculture and rural development. Mandated under the Local Government Code and empowered with authorities to deliver basic public services and operate as “viable economic development units,” many LGUs apparently have little understanding of how to program the IRA funds they get, and have yet less capacity to get what they are mandated in a given year.

## **b. The Immediate and Looming Issues**

### **i. Dominance and deterioration of Metro Manila**

The problems of Metro Manila are much larger and more complex but not atypical of other cities, particularly regarding issues of employment and quality of life.<sup>102</sup>

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<sup>102</sup> Kessides, C. *Urban Poverty in the East Asia Region: A Preliminary Desk Review with Particular Focus on the Philippines, Indonesia and Vietnam*. p. 35-52.

**(a) Loss of GDP**

With 40 percent of all economic activity in the country concentrated in and around Metro Manila, the economic stakes are huge, yet no institution is coping effectively with the growth problems of this vast conurbation. The problems of this mega-city, including deficient infrastructure and poor management systems, have been discussed extensively but remain mostly unaddressed by the national Government, local governments and donors. Manila is estimated to have lost 7 percent in GDP through security problems alone, when the average loss should be 2 percent for a city of this size. Metro Manila is losing population as congestion, poor livability, security issues and an economic downturn make smaller cities more attractive.

**(b) Ungovernable**

In Manila, action is paralyzed, by *inter alia*, the inability to achieve consensus among 17 mayors and their regimes. There is no overarching authority to forge consensus. The Metropolitan Manila Development Authority is at once highly political and powerless to drive cooperation. The future may see individual Metro Manila cities taking action locally on issues that could stimulate competition among the cities, but there are large metropolitan issues that require cooperation: traffic congestion, air quality, solid waste management, water and sewer systems.

**(c) Unemployment and Underemployment**

Twenty-one percent of household heads claim to be unemployed in Manila as compared to 19 percent in the overall urban average. The larger the urban area, the higher is the percentage of unemployed. Informal sector employment does not generally provide for earnings sufficient to meet basic daily needs. Sixty to eighty percent of the working poor are believed to be engaged in such informal economy labor.

**(d) Health**

Infant and child mortality are somewhat worse for urban poor than rural poor. Health outcomes are not commensurate with available services, leading to issues of actual access and quality for urban poor. It is not clear that there exist any systematic data on health conditions for urban slum populations.

**(e) Housing**

The share of the urban poor living in housing of salvaged materials is twice as high in Manila compared to all urban areas. Only 40 percent of the urban poor in Manila report full ownership of house and lot. The proportion of households living in the 'improvised' poorest quality housing is five times higher among urban than rural populations. Ten percent of the urban poor live in such housing – 21 percent in Manila.



**(f) Water**

Shared facilities and non-protected sources are used by 75 percent of the urban poor compared to 41 percent for the urban non-poor.

**(g) Sanitation**

Only 52 percent in the poorest urban decile have use of water-sealed toilets and one-third use an open pit, pile or no toilet. Conditions are considerably better in Manila than other cities.

**(h) Solid waste disposal**

Manila experiences large accumulations of uncollected waste most of the time, with piles littering the streets in neighborhoods of all income strata.

**(i) Transportation congestion**

Traffic congestion in Manila is among the worst in Asia, with average travel speed down to 10 kilometers per hour. Over 80 percent of the poor and poorest depend on public transport.

**(j) Urban land and property market distortions**

In the Philippines 57 percent of city dwellers live in housing that Hernando DeSoto calls “dead capital.” “Ownership of the assets is difficult to trace and validate and is governed by no legally recognizable set of rules.... The urban parcels are held in such a way that they cannot be used to create capital.”<sup>103</sup> A major source of insecurity for urban poor households living in informal or illegal settlements is lack of “recognized tenure.” In Metro Manila, in addition to official evictions, private developers and contractors set fires to clear areas of shanties and rights of way.

**ii. Financial management for local government units**

For most LGUs, financial management is a challenge. Most are as much as 80 percent dependent on the national government budget transfer (IRA). The national government is two to three years behind on IRA transfers, and the Supreme Court has ordered incremental payment of backlogs to begin. Few LGUs have any effective own-source revenue collection, though some useful reforms have begun in a few LGUs. The pilot Real Property Tax Information System instituted by the USAID GOLD project is one such example. There are few transparent systems of local procurement for professional services and equipment or clear systems of accountability in place. Most LGUs work through non-competitive joint ventures and possibly sweetheart arrangements. As a

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<sup>103</sup> De Soto, H. *The Mystery of Capital. Why Capitalism Triumphs in the West and Fails Everywhere Else*. p 33-35.

result, many may be taken advantage of and there is little sense of public trust of and institutionalized accountability for public expenditures. The three-year term for mayors and governors reinforces the influence of electoral politics on local governance.. The politicization of the whole governance process – along with large-scale corruption which has moved from national and provincial levels to envelop LGUs as well – makes progress difficult to achieve.

### **iii. Mindanao local governance challenge**

The Autonomous Region of Muslim Mindanao was not included in the original Local Government Code of 1991. This region has the highest average household size (6.13) in the country and all its provinces have been experiencing very high annual growth rates ranging from 3.15 to 5.53 annually during the period of 1995-2000.<sup>104</sup> A plebiscite has been held and has approved an amendment to the organic act creating the autonomous region to permit decentralization of governance. The region remains highly unstable and is a special object of AID assistance.

### **c. The Donors' Changing Role**

There are numerous individual donor projects affecting LGUs. However many of their activities are organized as traditional sectoral projects and appear to be products of donor headquarters, which offer little chance for locally driven strategic planning and guided development. The League of Cities argues persuasively that donors should act as facilitators of local economic and good governance development operating on a demand-driven basis.

While a predominant proportion of the nation's urban population is in the national capital region, most donors have little significant assistance activity in the conurbation that includes Metro Manila and adjacent regions, apparently due to a perception that this mega-region is too big and too unwieldy a problem to tackle.

### **i. AUSAID taking interesting new approach**

The Australian aid agency (AUSAID) has launched in the last few years a new approach to managing development assistance for governance. AUSAID has set up the Philippines-Australia Local Governance Facility with U.S. \$21 million for three years. The commitment is to “inter-generational” (long-term) public management improvement. The agency has no specific project or set of projects it is pushing, but rather receives proposals across a broad range of subjects. It is staffed with experts in the field of local government management and public administration and related issues, including public-private partnering. The agency can call upon an extensive group of experts and specialized firms on short notice. This organization is highly flexible, achieves quick response on proposals and gets a lot of spin off projects approved. Funded projects cannot require implementation beyond one year. The agency's director views good

<sup>104</sup> *2000 Census of Population and Housing Highlights*, Autonomous Region in Muslim Mindanao.

governance as a 15- to –20-year process and is committed to work on strategic priorities defined and requested by Filipino clients. The approach has been well received.

## **ii. The World Bank – CDS approach in chartered and component cities**

The World Bank is currently undertaking a one-year analysis of the institutionalization of urbanization in Philippines through the Asia Urban Studies Center of Stanford University, an analysis that may shed more light on the process of urbanization in Philippines.

A major urban and local governance undertaking of the World Bank is the City Development Strategies program. The World Bank's 1999 global Urban Strategy is a city-driven process of developing and executing a City Development Strategy for each participating city. The process started with seven of 120 cities in the Philippines and has spread to a second round of 10 to 15 cities. The process is grant-funded from trust funds of the World Bank and contributions from Cities Alliance members and UNCHS. USAEP has provided some resources. The World Bank hopes to develop a CDS Guidebook and to pull together a collection of tools (including those developed under GOLD) and make these accessible to LGUs, most of which will have to do most of their development on their own.

## **d. The Current AID Situation**

### **i. Portfolio and pillars - mission performance on urban issues**

USAID-Philippines is operating under a strategy, “Revitalizing the Economy and Transforming Governance to Accelerate Sustainable Growth,” for the period FY2000-FY2004, approved in November 1999. In the words of the Mission, this strategy fundamentally reshapes USAID development assistance and lays the groundwork for a more focused and consolidated program,<sup>105</sup> ultimately reducing the number of strategic objectives from six to three. In this reshaping, the strategy took the whole scope of its local government-focused “democracy and governance program” and distributed its objectives and resources across the Mission's other strategic objectives. Close-out of the highly successful GOLD program (see below) was assigned to the Office of Economic Reform and Governance whose program to “improve prospects for combating corruption, attracting investment and resuming poverty reduction” is principally executed at the national level.

#### **(a) Democracy and local government**

USAID/ has undertaken extensive work to establish a legal framework for decentralization, followed by assistance to build local government capacity through which urbanization issues have been addressed. The main urban related program of the

<sup>105</sup> *Revitalizing the Economy and Transforming Governance to Accelerate Sustainable Growth. USAID/Philippines Strategy for FY2000-FY 2004.* (Manila: USAID-Philippines, 1999) p. 2.

Mission recently has been the Governance and Local Democracy (GOLD) Project which was closed out in March 2001. The Mission strategy is to take the lessons learned from GOLD and incorporate those into the sectoral portfolios of the Mission.

The GOLD Project provided “support for local governments, including highly urbanized cities to strengthen their capacities to identify and address their own needs and priorities through more responsive and accountable local government.”<sup>106</sup> Its resources were released on a demand-driven basis in critical fields as defined by the communities themselves. According to the League of Cities, the aspiration of the people of the Philippines for self-governance is in place. While slow, decentralization under the Local Government Code cannot be retracted. GOLD has been praised by many as the first national effort to show LGUs and individuals that they could do things themselves through a participator. GOLD trained a whole generation who have moved into places of responsibility in government.

There is some debate as to whether GOLD – which was considered very effective—has been closed too soon to sustain its impact. Apparently, no other donors have stepped forward to support such a program and there is some sentiment among local government officials that a support function like GOLD is needed both for technical support at the local level and as a source of policy pressure on the central government.

The Centers for Local Governance attached to local institutions such as at Bulacan University and set up for continuing capacity building of LGUs have not been structured for sustainability and still need help. There had been discussion by USAID of setting up a private foundation to provide on-going support in building a private network of service providers of capacity building for LGUs such as the Friendly Care Foundation under the PHN Program. But this has not yet been carried forward.

The impact of GOLD on the Mission’s sectoral programs is being felt in several areas as noted below.

## **(b) Health**

The Mission’s health program includes a FSN from the democracy and local governance program, who had worked for years on GOLD and brought a local government perspective when he was reassigned to the Health Office. The other influence was the acknowledged limited effectiveness of central government health programs and the need to move to the local government level. Since 1999, the Health Office has refocused its population program on building the capacity to deliver population, family planning and child survival services within the private sector (through the Friendly Care Foundation) for lower-middle and middle-income populations, and that of local governments for the poorest populations. No details were available on the degree of knowledge and understanding of urban slum health issues, nor of the extent to which these issues are addressed – particularly urban slum populations in the larger, denser settlements.

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<sup>106</sup> USAID/Philippines web site USAID-Ph.Gov, Governance and Local Democracy (GOLD) web page

### **(c) Environment and natural resource management**

The Environment and Natural Resource Office has issued a request for proposals (RFP) for “an eco-governance-city component” in its environmental governance program. This three year consulting project will focus on solid waste management issues of local government units. Sixty percent of the resources are earmarked to be spent in Mindanao, whose four regions have six cities in all. The largest is Davao City (1.1 million people) and the fastest growing is General Santos City, growing at over 5 percent per year for over a decade. Both are in Southern Mindanao. Security risks are high in various parts of Mindanao but if these are mitigated, this could offer an opportunity for good geographic focus in this modest project.

### **(d) Energy**

The program has some interest in reducing emissions from transport and industry in cities. As in Bangladesh and India, The Philippines is looking seriously at the compressed natural gas alternative. A national act has been passed requiring vehicle emissions testing. The energy program, together with USAEP, will lend support to its implementation. AID participates in the Partnership for Clean Air.

## **e. Conclusions**

### **Strengths**

#### **(a) GOLD legacy of capability, trust and good will**

The Mission built up intellectual capital, trust and confidence across a broad range of players at all levels of government in the execution of the GOLD project. GOLD built a solid foundation for future local governance work.

#### **(b) Leagues and professional associations**

Another success praised under GOLD programming was the work to ‘professionalize’ the leagues. One hopeful trend is the driving initiative of the leagues, particularly the League of Cities. The League of Cities is working to develop governance capacity and strategic planning and investments at the LGU level and advocating appropriate and responsive national policy change, including work on amendments to the Local Government Code. The League of Cities is also using an “island cluster strategy” intended to relate to and engage locally with the populations and LGUs of each separate island group, seeking a leadership role of cities in Philippines development. The League offers a good partner with whom AID should stay engaged. Small investments could enable the League of Cities to become a catalyst for progress, on both policy and LGU development.

### **(c) Private sector growing interest in municipalities**

The Mission has provided small scale assistance on issues of municipal bonds and the LGU credit enhancement facility relating to mobilizing private capital to finance municipal capital investment requirements. These are good beginnings for more sustained work on local government financial management and credit issues which could link upward to national fiscal reforms.

## **Weaknesses**

### **(a) Local governance program**

With restructuring under the new strategy, the Mission has dispersed its “core” local government capacity building structure. If the Mission is successful in integrating D&G concerns into its sectoral programs as planned, then the legacy of GOLD will be secured. At the same time, we recognize that GOLD provided a very valuable resource in local capacity building that is hard to replace.

### **(c) RUDO gradually losing the “R”**

With the dominant focus of the RUDO on the Indonesia program, the Mission has had limited access to (or apparent demand for) RUDO staff expertise on a regular basis.

## **3. East Asia Secondary Countries**

### **a. Cambodia**

#### **i. The Situation**

Cambodia is peaceful, its economy is stabilizing and in the World Bank’s words, “recent economic performance is promising. Communities are slowly being rebuilt...Cambodia is redefining its political and economic position in the region. Yet Cambodia faces a formidable array of development challenges...[M]any of the foundations for growth and development – physical, social, human and economic – have been shattered and need to be put back in place .... Over one-third of the population lives below the poverty line, 90 percent of them in rural areas.”<sup>107</sup> It is estimated that the economy will grow at a rate of five percent in 2001 and six percent in 2002. “Many highways and rural roads are still in poor condition, effectively limiting the access of many rural households to markets. The financial sector is weak...access to rural credit is limited. Electrification is limited.... Human capital is also low, and the growing HIV/AIDS infection rate puts future growth

<sup>107</sup> World Bank, *Country Assistance Strategy*, 2/7/2000, p. iv.

at risk...The highest rates are in urban areas.” The government is committed to decentralization. Public administration is particularly weak at the provincial level.<sup>108</sup>

Cambodia was 15.9 percent urbanized in 2000 (2 million population) and is projected to be 31.9 percent urbanized in 2030 (5 million). The World Bank started its Urban Water Supply project in 1998, concentrating on Phnom Penh (population 984,000) and Sihanoukville. The poverty rate for Phnom Penh was 11 percent (30 percent in secondary cities) versus a national level of 36 percent in 1997, according to a 1997 survey. “Despite its pervasiveness, poverty in Cambodia is relatively shallow, suggesting great scope for poverty reduction through rapid growth.... Growth in 1993-1996 was unbalanced, centered in Phnom Penh and other urban areas, driven by reconstruction efforts and boosted by tourism.”<sup>109</sup> This suggests the possibility of an urban-based economic growth strategy at some point in the future, perhaps emulating that of China.

## **ii. AID Response**

AID’s program is entirely implemented by NGOs. ESF funds (U.S. \$25 million, or 71 percent of total assistance in FY2002) support democratic development including respect for human rights and advocacy for environment, improvement in reproductive and child health and in primary education. CSD funds support HIV/AIDS prevention as Cambodia is one of four rapid scale-up countries among AID-assisted countries worldwide. Global CSD Leahy War Victims resources assist war and land mine victims. AID seeks to improve grassroots (commune) governance, and supports micro-finance credit schemes, through assistance to, *inter alia*, the Association of Cambodian Local Economic Development Agencies (with UNDP). The HIV/AIDS program recognizes that there is high risk in urban areas, one NGO having been supported to provide training on STD case management in 11 public and private health facilities in Phnom Penh.

AID strategy analysis in Cambodia eventually will need to consider the degree to which the growing urban economy will be a driver of growth, as elsewhere in Southeast Asia, and how to enable this while at the same time addressing urban social problems (e.g. infectious diseases and low educational achievement) that undermine sustainable development.

## **b. Mongolia**

### **i. The Situation**

Principal sources of Mongolian economic growth are mineral and livestock-based exports, which are vulnerable to adverse trends in terms of trade as well as bad weather in the latter’s case. Real GDP growth reached an estimated 3.5 percent in 1999 but declined to 1.1 percent in 2000. The main challenge facing Mongolia, in the views of both the

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<sup>108</sup> Ibid., pp. 1-3.

<sup>109</sup> Ibid., p. 53.

World Bank and the ADB, is the need to reduce the high level of poverty.<sup>110</sup> In the ADB's view, poverty is relatively new to Mongolia – resulting from “the loss of substantial economic transfers from the former Soviet Union and the economic and social costs of transition from a centrally planned to a market economy in 1991.” The proportion of people below the poverty line was 15 percent in 1991 but, by 1996, this more than doubled to 36 percent, and has since stabilized there. In provincial capitals in 1996, 48 percent were officially poor. In 1997, 36.8 percent of households in Ulaanbaatar and the provincial capitals were below the poverty line. In 1998, 57 percent of the poor lived in urban areas. In 1998 about 25 percent of the very poor households and 18 percent of poor households were headed by women, most of them in urban areas.<sup>111</sup>

Sources conflict on the proportion of Mongolia's current population that is urban: the ADB cites the Mongolian statistical office figure for mid 1998 as 53 percent;<sup>112</sup> the World Bank records it as 61 percent in that year; the UNCHS (whose data was used for all population tables in this report) puts it at 63.5 percent in 2000, and projects a rise to 76 percent by 2030.<sup>113</sup> Discrepancies may be due to definitional differences, in particular concerning the Ulaanbaatar urban area. Backing up its estimate, however, the ADB observes: “Since 1989 many people have left the urban centers for the relative security of the traditional subsistence economy: the rate of growth in the cities' population decreased; other urban settlements lost population; and the rural population, which decreased from 56 percent of the total in 1968 to 41 percent in 1989, recovered to 48 percent by 1997... of all the cities and provincial capitals, only Ulaanbaatar has had consistent yearly population increase during the 1990s.”<sup>114</sup> The primacy of the capital and the decline in population and economic strength elsewhere in the urban system, and the emergence of a “dual rural/urban socioeconomic structure, with a small, outward-looking urban private sector alongside a ‘return to herding’ and traditional living conditions are significant constraints to economic development.”<sup>115</sup> (World Bank, *ibid*, p.9)

To reduce poverty, the World Bank supports macroeconomic stabilization, private sector development, infrastructure (including Ulaanbaatar energy and water supply and sanitation services projects and a municipal finance review) and equity (including microfinance). The ADB supports urban housing sector policy development and reform and assists rehabilitation of basic urban infrastructure in provincial towns.

## ii. AID Response

AID's Mongolia program is entirely ESF funded. It seeks to “accelerate and broaden environmentally sound private sector growth” and “consolidate Mongolia's democratic

<sup>110</sup> *Country Assistance Strategy*, 4/1/1998 *passim* and *Country Assistance Plan*, 12/2000 *passim*, respectively)

<sup>111</sup> ADB, *Urban Sector Profile*, 3/1999, p. 3.

<sup>112</sup> *Ibid.*, p.4.

<sup>113</sup> UNCHS, *Cities in a Globalizing World*, *op cit*

<sup>114</sup> ADB, p. iii.

<sup>115</sup> World Bank, p. 9.



transition.”<sup>116</sup> Private sector growth is pursued through privatization, improving the efficiency of financial markets, energy sector restructuring, and private sector natural resources management, the latter with an emphasis on goat husbandry. The democracy program seeks to “establish the foundations for an effective rural civil society, and by improving the effectiveness of Parliament and the judiciary.”

The program as conceived does not address poverty alleviation directly. More than half of poverty in Mongolia is urban.

### c. Non-Presence Countries

**Vietnam.** The World Bank’s current “Urban Sector Note”<sup>117</sup> sums up the situation: Only 20 percent (16 million) of Vietnam’s current 80 million population live in urban areas, but urban population is projected to increase to 45 percent by 2020, yielding an urban 2020 population of 30 million people. Cities are the country’s engines of growth, accounting for 70 percent of GDP. Urban poverty has been reduced from 25 percent to between 9 percent and 15 percent (1993 to 1998). Basic service provision is poor: only 65 percent of households have piped water, less than 50 percent have sewerage, and trash collection is limited to city centers; private vehicle ownership is growing fast: only five percent of trips use public transport; and only two percent of urban dwellers have land titles (land use certificates), compared to 80 percent in rural areas.”

This may be seen in the context of current rapid economic growth (6.4 percent expected in 2001, around 7 percent in 2002) and accelerating economic reform. Hence the government “envisions Viet Nam to become an industrialized country by 2020, with an annual GDP growth rate of at least seven percent during the period, and proportionally higher growth in industry and the urban areas. Among the social goals, poverty incidence (according to a food poverty line) is targeted for reduction by one third by 2005 and by two thirds by 2010.”<sup>118</sup> The World Bank appears to take seriously this essentially urban transition scenario, starting the Urban Transport, Three Cities Sanitation, Ho Chi Minh City Environment, and Urban Water and Sanitation projects and a “City Assistance Strategy for Haiphong to be supported by the Haiphong-Halong Improvement project in the 1999-2002 period.

For Hanoi, however, there is a dimmer view: “Hanoi is in transition from being an under-funded and relatively small city in a poor socialist economy to a rapidly growing city in an increasingly market oriented economy, in which the poor are in danger of increasing marginalization.”<sup>119</sup> Whereas Vietnam may be the next Asian “tiger” it may also be the next urban “time bomb” in light of new migratory mobility following from “Doi Moi” reforms.<sup>120</sup>

<sup>116</sup> USAID, *R4*, 3/30/2001, pp 11 and 23.

<sup>117</sup> available online at [www.worldbank.org](http://www.worldbank.org).

<sup>118</sup> ADB, *Country Strategy*, 6/2001, p.2.

<sup>119</sup> Forbes, 1996, p.18.

<sup>120</sup> interview with Chris Milliken, East Asia RUDO Director, Summer, 2001.

AID's current two DA- and CSD-funded activities – enhancing the environment for trade and investment, and improving access to services for vulnerable groups – are consistent with both the positive and more negative views, as are activities supported by US-AEP. There is considerable potential for a larger and more sustained program which recognizes both the economic need for and inevitability of Vietnam's urban transition while structurally addressing urban poverty before it becomes grim. Strategic analytical work should be assayed and technical help accessed from regional or central AID sources to set that agenda for the coming years.

**Thailand**, as viewed by the ADB has “largely met basic human needs.”<sup>121</sup> Between 1988 and 1996, Thailand's poverty incidence declined from 33 percent of the population to about 11 percent. The financial crisis beginning in 1997, however, added 3 million people to the poor, with poverty incidence, concentrated in rural areas, rising to 16 percent in 1999. The economy grew at 4.4 percent in 2000 and recovery from the earlier economic crisis is progressing but incomplete. The 1997 Constitution includes a formal role for civil society in shaping national policy. “Thailand's rapid economic development of the past four decades has been accompanied by serious neglect of the environment and natural resources. The environment has been significantly degraded to the point where it may now impede further economic development. The rapid growth of industrial and agro-industrial production has also resulted in serious air, surface and groundwater pollution in urban areas.”<sup>122</sup>

Nevertheless, about 55 percent of Thailand's population is rural but accounts for only 12 percent of its GDP. “The present [now somewhat lessened] economic crisis affords an opportunity to redress the rural-urban imbalance by empowering local communities. Administrative reforms to improve service delivery to the local level through revenue-sharing, grants, and fiscal decentralization will be an important part of this effort.”<sup>123</sup> Urban population in Thailand has been a modest proportion of national by Southeast Asian “Tiger” standards – about 22 percent in 2000, projected to rise to 39 percent in 2030. However, Bangkok's population is projected to exceed ten million in 2015. Its proportion of national urban population is and will continue to be around 50 percent. And whereas the core Bangkok metropolitan area is now growing relatively slowly (around one half of a percent annually in the late 1990s), the suburban and peri-urban areas surrounding it are growing faster than Thailand's overall growth rate (more than one percent annually).<sup>124</sup>

AID's assistance to Thailand consists primarily of initiatives of US-AEP, which has an office there and inputs from two ANE regional projects: Accelerating Economic Recovery in Asia (AERA) and HIV/IDS-Infectious Disease prevention. AID also provides institutional strengthening grants through OFDA and other offices to the Regional Disaster Preparedness Institute and key Thai universities. The Disaster Preparedness institution is of particular potential importance to future urban programs as

<sup>121</sup> ADB, *Country Strategy*, 7/2001, p.1.

<sup>122</sup> Ibid, p. 5.

<sup>123</sup> World Bank, op cit, p. 15.

<sup>124</sup> Webster, 4/2000, p.10.

they inevitably confront urban disaster crises. (A model for disaster preparedness is presented by the AID-India response to the Ahmedabad earthquake led by the South Asia RUDO). US-AEP is working from a Thailand urban program strategy which is to focus on implementing urban environmental management best practices through the medium of local governance. “As municipalities are increasingly able to plan their own environmental strategies and infrastructure, they will be an important partner for USAEP.”<sup>125</sup>

Thailand will continue to be an important laboratory for donor, engagement with Asian urban problems and opportunities. Continuing the work of US-AEP there is highly desirable. More direct cooperation on analysis and reconnaissance with respect to hot urban disaster potential sites with the Asia Disaster Preparedness Center would almost certainly be well rewarded in the future.

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<sup>125</sup> Work Plan FY 2001, 11, 2000

**ANNEX B****Management Assessment of Urban Programs for  
Bureau for Asia and the Near East****COUNTRY PROFILES: The Near East****A. The Region**

The Near East region<sup>1</sup> is largely urban,<sup>2</sup> faced with high population growth rates – some among the highest in the world – and a pervasive scarcity of water in many countries. The resultant challenges in health; the management and division of water resources among agricultural, urban, and industrial uses; urban governance; slum conditions; housing; and educating and employing its burgeoning population are formidable and often overwhelming. The opening up of formerly closed economies has benefited some of the population, but many feel left behind as the gap between the rich and poor widens. More attention is being paid to decentralization in much of the region, but such efforts are against a backdrop of a long tradition in heavily controlling, centralized systems, and a shortage in skills and experience at the local level.

**A long urban tradition**

The Middle East has a well-established urban tradition. Cities such as Aleppo grew up well before the advent of Islam. With the growth of Islamic empires, and the subsequent development of an Islamic society that linked communities from areas around the Indian Ocean to communities of the Mediterranean, there arose a chain of great cities: Mecca and Medina in western Arabia; Damascus and Aleppo in Syria; Baghdad, Mosul, and Basra in Iraq; Cairo in Egypt; Qayrawan and Tunis in Tunisia; Fez and Marrakech in Morocco; Cordoba, Seville, and Grenada in Spain. This chain of cities also reached out through Iran, central Asia, and northern India. By the tenth and eleventh centuries, the major cities of the Islamic world were the largest in the western half of the world. By the beginning of the fourteenth century, Cairo had a population of roughly a quarter of a million. Baghdad's population was at least that, and it is quite possible that Cordoba was also that large. By the fifteenth century, the populations of Aleppo, Damascus, and Tunis may have each reached as much as 100,000. For comparison's sake, there was no country in western Europe with a city as large as Cairo. Florence, Venice, Milan, and Paris may have had populations on the order of 100,000 – the cities of England, the low countries, Germany, and central Europe were smaller.<sup>3</sup> For a dynasty to endure and prosper, it needed an urban anchor for both the wealth from trade and industry and the legitimacy that could be conferred upon a ruler by the religious elite. The cities in turn

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<sup>1</sup>The Near East region includes both the Middle East and North Africa.

<sup>2</sup>See table next page for detailed comparisons of countries in the region.

<sup>3</sup>Hourani, A. *A History of the Arab Peoples* (New York: Warner Books, 1991) 110-11.

were dependent upon the power of the rulers for their creation and further growth. A strong ruler might be able to divert trade routes to go through his city. If a ruler moved away or was no longer able to defend his city, the city might fall into decline.<sup>4</sup> The creation of Islamic dynasties was in large part the story of conquered cities. The rise of European imperialism, with new production methods and patterns of transport and the arrival of steamships, railways, and telegraphs, accelerated the urbanization process. Improvements in health and medical care contributed to a rapid growth in population and rural-urban migration.

### **Middle Eastern population today: young, urban, and growing rapidly**

Given its long history of urbanization, it is not surprising that the region today is highly urbanized. Even Morocco, which still has a significant rural population, is roughly 65 percent urbanized. The Gaza Strip is virtually entirely urban, and the West Bank and Lebanon are approaching this level. The challenges facing the countries of the Middle East stem in large part from large populations and the continuing high annual population growth rates, typically ranging from 2 percent to 4 percent. Urban populations are in some cases growing at an even higher rate than the national average. The relatively high proportion of youth within the total population means that population growth rates will continue, even as fertility rates decline, given the large number of people of reproductive age during the coming years. Existing urban systems are overtaxed, and the formation of newer urban agglomerations often means that cities are stretched well beyond their capabilities. Convoluted regulations can make the process of officially registering and developing residential property literally impossible. The lack of housing has led to a proliferation of informal settlements – as much as 60 percent of a city's population may live in shanty towns and other substandard housing. Other demographic pressures include the high number of refugees. There are large numbers of Palestinian refugees in West Bank and Gaza, Jordan and Lebanon. They are generally in camps in peri-urban areas or in urban areas near the camps.

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<sup>4</sup>Hourani, p. 130.

Table 26. TOTAL, URBAN AND RURAL POPULATION ESTIMATES AND PROJECTIONS*															
	Total Population (millions)			Annual Growth Rate (%)		Urban Population (millions)						Urban and Rural Annual Growth Rates (%)			
	2000	2015	2030	2000- 2015	2015- 2030	2000	% Urban	2015	% Urban	2030	% Urban	Urban 2000 2015	Urban 2015- 2030	Rural 2000- 2015	Rural 2015- 2030
<b>North Africa</b>															
Egypt	68.4	85.2	100.4	1.7	1.4	31.0	45.2	43.6	51.2	60.1	60.0	2.3	2.1	.7	.3
Morocco and West Sahara	30.7	35.2	41.0	1.7	1.4	17.2	56.1	23.1	65.6	29.2	72.0	2.4	1.6	-.3	-.4
<b>Algeria</b>	<i>3.2</i>	<i>4.1</i>	<i>4.9</i>	<i>1.8</i>	<i>1.2</i>	<i>18.9</i>	<i>60.3</i>	<i>28.2</i>	<i>68.5</i>	<i>36.7</i>	<i>74.4</i>	<i>2.7</i>	<i>1.8</i>	<i>.3</i>	<i>-.2</i>
<i>Tunisia**</i>	<i>9.6</i>	<i>11.6</i>	<i>13.4</i>	<i>1.3</i>	<i>.9</i>	<i>6.2</i>	<i>65.5</i>	<i>8.53</i>	<i>73.5</i>	<i>10.5</i>	<i>78.4</i>	<i>2.0</i>	<i>1.4</i>	<i>-.5</i>	<i>-.4</i>
<b>Middle East</b>															
Jordan	5.0	7.5	11.2	3.1	2.5	3.85	78	6.4	85	10	90	3.1	2.1	1	.5
Lebanon	3.6	4.5	5.4	1.7	1.2	3.2	90	7.0	93	5.1	95	1.5	1.1	-1.0	-.2
West Bank/Gaza	3.1	5.2		3.4/3.9		3	98	5.2	99						
<i>Syria**</i>	<i>16.1</i>	<i>22.6</i>	<i>28.1</i>	<i>2.3</i>	<i>1.4</i>	<i>8.8</i>	<i>55</i>	<i>14.1</i>	<i>62.1</i>	<i>19.4</i>	<i>69.1</i>	<i>3.1</i>	<i>2.2</i>	<i>1.0</i>	<i>.1</i>
<b>World</b>	6,055	7,154.	8,112	1.1	0.8	2,845	47	3,817	53.4	4,884	60.3	2.0	1.7	0.3	-0.2
<b>First World</b>	1,188	1,214	1,210	0.1	0.0	903	76	968	79.7	1,010	83.5	2.0	1.7	-1.0	-1.4
<b>Third World</b>	4,867	5,940	6,903	1.3	1.0	1,942	39.9	2,849	48	3,880	56.2	2.6	2.1	0.4	-0.2

\*Sources: World Bank figures; *CIA Factbook 2000*; United Nations Development Programme; United Nations Center for Human Settlements, *Cities in A Globalizing World: Global Report on Human Settlements, 2001* (London: Earthscan, 2001)

\*\*Italicized countries are not major current AID recipients

**Access to basic urban services higher than Asia, but quality can be low**

Although the percentage of the urban population with access to very basic services is generally fairly high, the quality of these services is often poor. High population densities can exacerbate the health risks posed by substandard services. Poor sanitation practices can contaminate the water supply, for example, and the concentration of people makes contamination more likely and more serious. The provision of wastewater services is not linked with the provision of water services and typically lags far behind. Poor liquid and solid waste management practices are leading contributors to water pollution and land degradation – a serious problem in this region where arable land is scarce.

**High unemployment in a changing global economy**

One of the most pressing problems across the region is unemployment. For certain populations, the unemployment rate can reach 30 percent. By way of context, the unemployment rate in the United States during the Great Depression was 24.9 percent at its peak. Across the region, unemployment is hitting the newly graduated especially hard. In an effort to generate new jobs, the countries in this region are depending upon export-led growth. In the world's globalizing economy, urban centers are becoming major drivers for economic growth. Unfortunately, the business climate in the region is very negative. The need for wide-scale regulatory and policy reforms is real and pressing. Corruption is endemic. Privatization laws are on the books, but implementation has often proved to be extraordinarily challenging. Middle Eastern countries face increasing competition from other regions – particularly southeast Asia – and are finding that lower wages by themselves are not sufficient to attract foreign investment. Rising levels of poverty further underscore the need for higher wage opportunities. Income disparities are increasing and the poor make up 20 percent to 25 percent of the population.

The very high unemployment rates of new graduates suggests that there may well be a poor skill match between the traditional education systems and the new economy. Even with high unemployment rates, jobs requiring skilled labor can go unfilled. Often, there is a need to hire people trained in modern management and public administration, but few applicants due to a lack of effective educational programs in these areas. In Egypt and Morocco, the high illiteracy rates pose a significant concern. Even blue-collar work often requires fairly skilled employees. The illiteracy rates remain high even for the younger population, indicating a real risk that this trend will continue. In countries like Jordan and Lebanon, there is a reluctance to take on work not considered suitably professional – there are more than enough doctors, for example, but not enough skilled laborers.

**Water: scarcity and inefficient distribution**

Water scarcity is a major issue in the Middle East. It is one of the most politically charged as well – and countries like Jordan are subject to external pressures beyond their

control. Agriculture uses the lion's share of water resources – often for the benefit of the ruling elite. Water is heavily subsidized and irrigation methods are grossly inefficient – estimates suggest that savings as much as 50 percent or more could be realized from using better irrigation methods. The lack of water for municipal and industrial purposes is a significant barrier to economic growth. Even the water available in municipalities is often wasted. Again, water is often heavily subsidized, discouraging conservation efforts, and leaks and other problems with the municipal delivery systems can lead to losses as much as 50 percent. Regular, systemic maintenance has often been difficult to achieve. It should be noted, however, that despite the huge need, there has been tremendous progress, particularly in the improvement of the infrastructure. What is increasingly needed now is institutional strengthening and capacity building, along with continued regulatory and policy reforms. This is also true for other municipal services, such as wastewater and solid waste management. Reforms in the telecommunication and power sectors are further along, in part because they have proven to be more commercially viable.

**Governance: great need for institutional strengthening and capacity building**

Institutional strengthening and capacity building are also sorely needed for the various levels of government – particularly for nascent local government institutions. With calls for increasing decentralization, local governments are given responsibilities for which they often lack sufficiently trained personnel. Management skills are frequently lacking at the local level. Identified areas for training often include public financial management and budgeting, personnel management, procurement systems, capital investment planning, and tax administration. Countries that have not decentralized, like Egypt, could benefit by such training for their central government institutions. Accountability, transparency, accessibility to the public, and corruption remain significant concerns at all levels of government, especially in Egypt and Lebanon. Throughout the region, there is a strong tradition of very centralized, controlling governments. The newly independent post-colonial governments of the mid-twentieth century felt the need for control to shore up their insecure new regimes, and current political uncertainty helps to keep central control place. Ironically, the monarchies in Jordan and Morocco have been more successful with decentralization, perhaps because they are considered by their people to be more legitimate.

**Urbanization and the rise of radical Islamism**

Questions of legitimacy of current regimes have helped fuel the rise in radical Islamism. When the avenues for political and civil participation are limited, the mosque has traditionally been the one open venue. The high number of shanty towns along the urban



perimeters has led to a large number of people who are disconnected from the larger urban fabric. When poor neighborhoods are ignored by officials, radical Islamic organizations have an opportunity to become the main, or even sole, provider of public services such as health care, education, and job training. The crowded slums of many Middle Eastern cities, with large, young, unemployed populations who feel disenfranchised, have proven to be fertile recruiting grounds.

## **B. The AID Response**

This review of the AID response for the Near East focuses on five countries: Egypt, Jordan, Morocco, West Bank and Gaza, and Lebanon. Four of these countries are key constituents of the Middle East peace process and AID's large annual assistance budgets for these countries reflect the vital U.S. interest to promote peace.

There are, of course, variations in the development approaches taken by each Mission. Nevertheless, much of the development activity generally takes place in urban settings throughout the region, since the region's population is so highly urbanized. Water is an overriding concern in most of the countries. Water is scarce and there are policy debates on how to divide it among agricultural, urban, and industrial users. In most of the countries, agriculture still receives the lion's share of the water, but the value of agricultural products and the number of people employed in agriculture is declining. Water programs have been central to AID programs in many of the countries in the region. Because of the lack of primary infrastructure and the availability of relatively large amounts of funding, much of the AID expenditures have gone into construction. However, the regulatory framework and the efficiency of the organizations responsible for the provision of water have been increasingly targeted, as have policies concerning subsidies and the uses of water. Generally, however, water has been considered a separate sector and the approach has often been focused almost entirely on technical water issues.

Another similarity among the countries is that job creation is of great importance. The populations are young in most of the countries. Jobs are urgently needed. Missions have responded across the board with programs, including micro-lending, most of which take place in urban areas.

Health programs have been important. HIV/AIDS has not yet become as serious a problem, but traditional AID programs to improve maternal and infant health through better family planning services have been important and are helping to curtail population-growth pressures on water and other resources.

In contrast with Asia, decentralization has not been at the forefront of most of the countries' development agendas. These are countries with strong centralist tendencies and histories. In spite of this, Missions in three of the countries (Lebanon, Morocco, and

West Bank and Gaza) have begun to work with local authorities on this issue, within the frameworks of what is realistic to expect in each country..

The tendency in most of the countries has been for the activities to be conceived and executed as sector activities whose performance is judged based on sectoral criteria – as a water activity taking place in a city, or as a health activity that is taking place in a city, for example. There have been few activities aimed at improving the overall functioning of city services.

A Regional Urban Development Office (RUDO), is located in Rabat. As noted in the Asia section, the significance of the letter “R” has been progressively lost over the last 10 years. The RUDO in Rabat has become more or less an integral part of the Morocco Mission, with very little in the way of regional activities or programs.

Overall, the AID response to urbanization and urban issues in the Near East has been substantial, with conspicuous and visible successes registered, and substantial return on program resources. However, the AID response has been incomplete in terms of not providing a comprehensive and consistent framework that integrates individual elements in a coherent vision of urban improvement. There is much to learn in each of the countries concerning what is happening and how best to take advantage of this to ensure that AID strategic objectives are met. Poverty is increasing in urban areas, urban services are sadly inadequate, and governance is poor. All of this means that overall AID objectives will not easily be accomplished absent a real effort over the next five years.

## **C. The Countries**

### **1. Egypt**

#### **a. The Development Context**

The population of Egypt is the largest and densest of the Arab countries. Most of the population is packed along the narrow swath of the Nile Valley. Of Egypt’s one million square miles, only 6 percent is inhabited. More than 20 percent of Egypt’s roughly 68.4 million people live in Cairo, and in some of its older districts, population density is as high as 100,000 persons per square kilometer.<sup>5</sup> Poverty and employment are central concerns to Egypt. Of the countries in the Middle East and North Africa, only Yemen and the West Bank and Gaza have higher poverty rates. The country’s social and governance indicators lag behind comparable countries in the Middle East and in other developing regions. Although the private sector created the vast majority of new jobs in the early to mid-1990s, job creation during Egypt’s current slow growth period has been due in large part to government hiring. This is not sustainable. Egypt is seeking increased private sector participation, but is hampered by an economy that retains a number of discouraging characteristics.

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<sup>5</sup> Facts and figures on Cairo. *Middle East Report* Winter 1997.

The Government of Egypt has declared that export expansion is a key need for continued economic growth, which means that Egypt's economic prospects will become increasingly dependent upon its ability to integrate into the global economy.<sup>6</sup> Despite this oft-stated goal of economic integration, the contribution of external trade to Egypt's economic growth has been small and has been shrinking, not growing.

In urban areas, housing remains a major issue. In particular, informal settlements – housing constructed without a license – continue to pose a challenge. Finally, Egypt's population growth and industrialization have contributed to the severe environmental problems facing Egypt, which are particularly acute in urban areas: solid waste, air pollution, industrial pollution, and land degradation.

USAID is helping Egypt to meet each of these challenges. It has a long and distinguished record assisting in the provision of infrastructure, particularly water, wastewater and power, that has helped millions of urban dwellers. AID is also helping Egypt to transform its approach to economic development toward an increased reliance on the private sector. The USAID program is discussed in section b, while this section discusses issues related to urbanization, especially the various sectors that are most relevant to urban management.

### **Population and urbanization trends**

Egypt is divided administratively into 26 Governorates and Luxor City. Along with Luxor, the Governorates of Cairo, Alexandria, Port Said, and Suez are entirely urban. Estimates vary widely, but Cairo's population is estimated to be about 15 million, and Alexandria's 5 million. The remaining Governorates are divided into urban and rural areas, but the urban/rural distinction can be much less clear in Egypt than in other countries. There are villages with larger populations than cities. Rural areas are also very likely to be integrated with a city, both politically and economically, as a city will serve as the administrative seat for a group of villages. Many rural inhabitants will commute, at least occasionally, for work in a city. This is particularly true for areas around Cairo and the tourist resorts along the Red Sea.

Egyptian statistics put the percentage of the population in urban areas at about 44 percent. This figure has held relatively steady since the 1960s. Other informal estimates, factoring in areas that would typically be considered urban, even though they might not have that administrative designation, put the percentage of population in urban areas at about 60 percent. Many note that virtually everyone is at least semi-urban, and that 95 percent of the population lives within about 30 minutes of an urban or peri-urban area.

Current (2000) figures provide an estimate of Egypt's annual population growth rate of 1.72 percent<sup>7</sup> and the Egyptian Government's target rate is 1.3 percent. Egypt is also hoping to bring its fertility rate down to a replacement rate of 2.1 by 2017. In an effort to

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<sup>6</sup>*Middle East Report*, p. 19.

<sup>7</sup> *CIA Factbook*.

reach this, the Ministry of Health has made family planning services a priority. Contraceptive use has increased considerably, from 24 percent in 1980 to 56 percent in 2000. There is widespread knowledge of family planning services, and widespread approval of contraceptive use. Evidence also suggests, however, that family planning service providers are not offering women adequate information and advice, and discontinuation of methods is a significant concern. Also, Egypt has a significant unmet need for family planning services.<sup>8</sup> Another important factor in reducing fertility rates is the rising age at which women first marry. For women aged 25-29, the median age at first marriage is 20.8 years, which is about three years older than that of women aged 45-49.<sup>9</sup> Both contraceptive use and age of first marriage are directly correlated with a woman's level of education and income. The current fertility rate is an average of 3.5 children during a woman's life-time, a marked decrease from the 1980 figure of 5.3. The rate of change, however, has slowed considerably, and the rate for 1995 was quite close, at 3.6, to the current figure. Reaching the target rate of 2.1 will be exceptionally difficult, as the desired rate of fertility (that is, what women themselves report) is three children per mother, and this has held true for more than a dozen years, showing virtually no difference between urban and rural women, nor between those educated and those not.<sup>10</sup> Reaching this target by 2017 will be extremely difficult. In order to bring about a decrease in the desired fertility level, Egypt will need to take a serious look at the factors that reduce it – in particular better educational and work options for women.

### Urban informal communities and “new cities”

Although exact data are hard to come by, informal communities represent a significant percentage of a city's settlements. These settlements are informal in that they are not licensed or zoned. There are different kinds of informal communities, from desert settlements to illegal buildings in urban and peri-urban areas.

Although not all of them are slums, informal settlements do tend to be inhabited by poorer residents. For example, estimates of slums in Alexandria range from 40 percent to 60 percent of the total number of households. The Presidential decree 90/91 declared that slum areas were to be provided with services, which represented a major break from past practices. But in reality, there continue to be serious barriers to providing services. The resources to carry out such projects are limited, and the number and complexity of regulations and bureaucratic procedures are extremely daunting.

To illustrate why informal settlements are so prevalent, Hernando de Soto estimated what it would take to acquire a parcel on state-owned desert land to build a dwelling and then register the property following legally established procedures – 77 bureaucratic

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<sup>8</sup> El-Zanaty F, Way A. *Egypt Demographic and Health Survey 2000 (DHS 2000)*. Calverton, MD: Ministry of Health and Population Egypt National Population Council and ORC Macro.

<sup>9</sup> El-Zanaty.

<sup>10</sup> El-Zanaty.

procedures in 31 different public and private offices, which could take six to 14 years to complete.<sup>11</sup>

The potential for unrest, particularly from militant Islamists, created an impetus for a number of urban settlement upgrading projects. At this point virtually all settlements have access to water, electricity, and, to a lesser extent, sewerage. The quality of these services, however, is often poor, and may depend on standpipes and canals, rather than direct connections to individual dwellings.

In contrast to the informal settlements that have developed in and near existing settlements, the new desert cities are the Government of Egypt's centerpiece of urban planning. Designed to alleviate the intense pressures the growing population is placing on existing cities, particularly on Cairo, they form a network of new cities 30 to 70 kilometers from Cairo. The Government of Egypt's "new Valley" plan, as described in its 1997 *Egypt and the 21<sup>st</sup> Century* document, called for the creation of 44 new cities with 5.3 million housing units.<sup>12</sup> This represents, in essence, an attempt to create entire new cities from scratch, and epitomizes centrally planned development. Only a few cities close to Cairo have been relatively successful, and only then after enough industry and other employment were established. For the most part, they have shown a poor return on what has been an extremely costly exercise. Ironically, while housing is at a premium in older cities, these new cities have a significant supply of empty housing.<sup>13</sup>

### Unemployment and poverty

With Egypt's increasing population comes the need for jobs. It is estimated that approximately 700,000 new jobs will need to be created annually to keep up with the growing population. Egypt's official unemployment rate for 2000 was 7.4 percent, while unofficial, but more precise, estimates of market-based employment put the unemployment rate at just under 12 percent.<sup>14</sup> (If using a more broad-based definition of the labor force, including women in subsistence agriculture, the unemployment figure is 7.9 percent.)<sup>15</sup> Unemployment is highest among the young. New job seekers in both urban and rural areas have unemployment rates on average of about 15 percent, with young urban women facing the highest unemployment rate of about 25 percent. Educated labor in general tends to face higher unemployment rates. This trend is expected to continue in the medium term as past high fertility rates coupled with growing enrollment rates will continue to lead to elevated unemployment rates among first-time the young.<sup>16</sup>

Even when using the extended labor force definition (including women working in subsistence agriculture), the public sector still represents 29 percent of the labor force.

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<sup>11</sup> de Soto, H. "Dead Capital and the Poor in Egypt," ECES Distinguished Lecture Series 11, Cairo, 1997, pp. 2-13.

<sup>12</sup> *Egypt and the 21<sup>st</sup> Century*. Online at <http://www.sis.gov.eg>.

<sup>13</sup> Denis, E. Urban planning and growth in Cairo. *Middle East Report* 1997:10.

<sup>14</sup> *CIA Factbook*; World Bank figures.

<sup>15</sup> *Egypt Social and Structural Review June 20, 2001 World Bank Report No. 22397-EGT*. 57-58.

<sup>16</sup> *Egypt Social and Structural Review*.

Private agriculture represents 39 percent of the labor force, the vast majority (34 percent of the total labor force) in non-wage labor. Private sector non-agricultural labor represents a total of 32 percent of the labor force (20 percent in wage work, 12 percent in non-wage labor).<sup>17</sup>

Women's participation in the labor market continues to lag significantly behind that of men. In urban areas, educated women's job opportunities tend to be limited to the finance sector (which is rather small), and government jobs. The situation is even more constrained for women in rural areas, since they cannot commute to urban areas, and so are limited to employment in the public sector. The World Bank notes that the Egyptian labor market appears to be effectively excluding women from the non-agricultural private sector, and that the majority of new jobs created for women over the past decade are in non-wage agricultural labor.

Although the private sector created the vast majority of new jobs in the early to mid-1990s, job creation during Egypt's current slow growth period was due in large part to government hiring. This is clearly not sustainable in the long run. Employment issues are further compounded by the fact that real hourly wages have declined over the period from 1988 to 1998 in almost every sector. The World Bank reports that analyses of labor market surveys suggest that there has been a negative return on basic education, both in terms of employment and in wages. Estimates for Egypt's poverty figures have not been updated since the mid-1990s, when the poor represented 23 percent of the population, and the ultra-poor 7 percent of the population. Another 35 percent of the population was only just above the poverty line. Poverty is higher in rural areas nationwide and in urban areas of Upper Egypt.

### **Health and education**

In addition to monetary definitions of poverty, Egypt also faces challenges in the areas of health and education. While major progress has been made, maternal and child health remains a major concern. A look at key indicators of health show significant progress, but also significant needs still to be addressed. Infant mortality has dropped from 25 percent in the 1960s, but 6 percent of all children under age 5 die. Roughly one in five children under the age of five is physically stunted due to poor nutrition, and about 12 percent are malnourished, 3 percent acutely so. Ninety-two percent of children aged 12-23 months have received the basic immunizations, but diarrhea, acute respiratory illnesses, and hepatitis C remain concerns.<sup>18</sup> While most women receive some care during pregnancy, it is generally insufficient (fewer than the recommended number of visits) and incomplete (appropriate screening and advice not provided). Post-natal care is rare.<sup>19</sup>

Illiteracy rates are among the worst in the region, and are poor also by international norms. Although they have dropped considerably over the past decade, they remain high

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<sup>17</sup>*Egypt Social and Structural Review*. Note that these are 1999 figures.

<sup>18</sup>DHS 2000; *Egypt Social and Structural Review*.

<sup>19</sup>DHS 2000.

– nearly half the total population is illiterate, with the literacy rate for women only about two-thirds of that for men. Of particular concern is the fact that roughly 31 percent of those aged 15-24 are illiterate.<sup>20</sup>

Education in Egypt is in need of improvements. Subjects offered are not based upon market demand for skills. The Government acknowledges that the skills taught and curricula covered reflect traditional practices, rather than being based on skills that might be required in the global economy. The education system is turning out graduates ill prepared to enter the job market. Although unemployment is a significant concern, there is much anecdotal evidence that higher-level jobs are going unfilled due to a lack of qualified applicants. Employers complain that the Egyptian educational system stresses rote learning over problem solving. The educational system is further burdened by the high number of administrators – the ratio of administrator to teacher is 1:1.<sup>21</sup>

### **Urban threats to the environment**

Egypt faces increasingly severe environmental problems. Air pollution, particularly in urban areas, has become a real problem; the air in Cairo is among the world's worst. Urban encroachment has led to the loss of agricultural land and contributed to desertification. Solid waste disposal, particularly in urban areas, is a major problem. Sewerage has not kept up with the expanded provision of water services, and what wastewater treatment exists is insufficient. Only 77 percent of urban households are connected to sewerage systems, and the inadequate capacity of wastewater treatment plants means that untreated wastewater is often discharged into drains. In turn, these drains often lead into valuable water resources such as Lake Maryut, Lake Manzala, Lake Qarun, and, of course, the Nile.<sup>22</sup> Many industries discharge untreated effluent into bodies of water. In the Red Sea, Egypt's coral reefs and marine habitats suffer from the effects of oil pollution, and the soil below the Aswan High Dam is increasingly saline.

### **Economic growth: marginalization or globalization**

The Government of Egypt has declared that export expansion is a key need for continued economic growth, which means that Egypt's economic prospects will become increasingly dependent upon its ability to integrate into the global economy.<sup>23</sup> Despite this oft-stated goal of economic integration, the contribution of external trade to Egypt's economic growth has been small, and has been shrinking, not growing. Difficult to navigate and badly in need of reform, Egypt's business environment is decidedly unfriendly. A World Bank study on aspects of governance in 155 countries ranked Egypt 100<sup>th</sup> in government effectiveness, 102<sup>nd</sup> in regulatory burden, 80<sup>th</sup> in law, and 103<sup>rd</sup> in graft.<sup>24</sup> International donor organizations, including AID and the World Bank, have

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<sup>20</sup>*Egypt Social and Structural Review* , p. 65.

<sup>21</sup>*Egypt Social and Structural Review* , p. 67.

<sup>22</sup>USAID/Cairo, *Environmental Sector Assessment Final Report*, March 1998 (conducted under the EPIQ IQC by the International Resources Group-led consortium, contract no. PCE-I-00-96-00002-00).

<sup>23</sup>*CIA Factbook for Egypt* , p. 19.

<sup>24</sup>Kaufman D Kraay A, Zoido-Lobaton P. *Governance Matters, World Bank Working Paper No. 2196*.

identified custom, tariff, and para-tariff reforms as top priorities. The high cost of imported inputs to domestic producers in Egypt means that exporters, who must be internationally competitive in price, generally use domestically available natural resources, which are limited. The World Bank suggests this is a contributing factor to the fact that Egypt has not become part of the large international production networks, and instead has been rather marginalized.

Egypt's economy grew at a fairly healthy and consistent rate through the 1990s, but growth was driven primarily by domestic rather than foreign demand for Egyptian products. Furthermore, the growth was largely due to the accumulation of labor and capital rather than by growth in productivity. The World Bank notes that the construction boom, which collapsed in 2000, is an indication that investment in the 1990s may have gone primarily into new buildings, rather than in re-tooling or capital investments, such as new technology. While there were modest foreign direct investments (FDIs), these also were not a source of technological change that would help increase Egypt's competitiveness and productivity.<sup>25</sup> The service sector makes up just over half the GDP, industry just under a third, and the rest in agriculture. In the industrial sector, it should be noted that manufacturing's share of Egypt's GDP (19 percent) is smaller than that of comparable countries, and that manufactured exports are only 44 percent of all merchandise exports – which are quite low to begin with. This is important because this sector should offer some of the best opportunities for job creation and higher wages. Egypt has virtually no mid-stream manufacturing (manufacturing component parts from imported materials for re-export), which has driven the economic growth of many other lower middle-income countries. Furthermore, much of Egypt's exports is petroleum-based, and is therefore relatively volatile. Egypt's regulatory and economic environment is such that technology-intensive and/or export-oriented firms are not likely to invest in Egypt.<sup>26</sup>

In terms of FDI, foreign firms operating in Egypt tend to rely on joint ventures, rather than wholly-owned subsidiaries, which are more technology-intensive and export-oriented. Multi-national corporations that have participated in privatization in Egypt as anchor investors have generally been in products characterized by brand-name identity and advertising, rather than in products that involve much research and development. The rigid evaluation process and the government's inability to take losses in general have hampered privatization efforts. There is some expectation that the privatization process will be helped by the private provision of public services, mainly through BOOT projects which are underway in the utilities industry.

### **Local government: central control over local matters**

Egypt's tradition of governance is one of centralization and control. There are no autonomous governmental units at the sub-national level. There is a degree of decentralization in that there are regional offices of national ministries, but these exist not so much for local management, but to provide a localized instrument of central control.

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<sup>25</sup> *Egypt Social and Structural Review*, p. 11.

<sup>26</sup> *Egypt Social and Structural Review*, p. 27-34.



Political parties, nongovernmental organizations, professional associations and the like must all be approved by the Government to function as such. As a result, most official NGOs are involved in relatively uncontroversial activities: charities, organizations for children, etc.

Each Governorate is headed by a Governor appointed by presidential decree. These Governors, like the rest of Egypt's ruling party elite, are typically quasi-retired military officers. The Ministry of Local Government has a secretariat at the Governorate level, and this office reports to the Ministry, not to the Governor. Likewise, regional branches of other central ministries report to their respective ministers.

Even Cairo, though it is the capital city, has no real local autonomy. The Cairo metropolitan area is in three Governorates: Cairo, Giza, and Qalyubia. Although there is, on paper, a Greater Cairo Authority created in the 1980s, it has no real authority of its own, and it is currently unstaffed. The Greater Cairo Authority has no budget of its own and mainly serves to coordinate the technical services that have been divided among the three Governorates. Within each Governorate, in Cairo and in other cities, residents elect district representatives nominated by the ruling party to assemblies whose role is only consultative. All urban planning and infrastructure development, even at the neighborhood level, is determined by centralized executive power.<sup>27</sup>

#### **b. USAID in Egypt**

Egypt is AID's largest program, and includes AID's largest urban program. Over the last 27 years, AID has invested more than \$5 billion in basic urban infrastructure and related technical assistance and support for reforms (\$2.6 billion for water/wastewater, \$1.8 billion for electric power, and \$700 million in telecommunications).<sup>28</sup>

The concrete results of these programs have benefited many millions of urban dwellers. For example, USAID programs have resulted in the construction of 35 percent of Egypt's electric generating capacity, 8 million additional telephone lines, 10 million people served by new or improved water and wastewater infrastructure, and 22 million benefiting from strengthened water and wastewater utility operations.

As elsewhere in the Middle East, with large sums of money to obligate in support of the Camp David and Oslo peace accords, AID has undertaken massive construction programs. Urban issues, certainly over the past 10 years or so, have largely been addressed in the context of sector specific goals, e.g. water and power, rather than cross-sectoral goals, e.g. goals related to urbanization and decentralization that take place within geographically conceived and integrated programs. Thus, AID urban programs have concentrated on infrastructure construction; institutional development as an integral part of this focus on infrastructure, e.g. working closely with water utilities and the

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<sup>27</sup>Denis E. Urban planning and growth in Cairo. *Middle East Report* 1997:8-9.

<sup>28</sup>Much of the information concerning the rationale for programs, accomplishments, funding and workforce levels in this section comes from the FY2000-2009 USAID/Egypt Strategic Plan, December, 1999.

agencies that are most closely involved in regulation of these services; and legal/regulatory reform.

As such, Egypt presents one model for addressing urban issues, which merits careful examination but with the caveat that such massive non-loan funding will probably never again be available.

USAID-Egypt categorizes its overall program as evolving through four overlapping phases, or changes in emphasis, all of which continue today in one form or another:

- improving the country's physical infrastructure (begun in the 1970s)
- better education, health and family planning services (initiated in the 1980s)
- new policies to promote economic growth (since the 1990s)
- promoting trade and investment beginning in the late 1990s.

USAID's present program in Egypt has the goal of integrating Egypt into a globally competitive economy in ways that benefit Egyptians equitably. In turn, this goal has two sub-goals: creating private sector jobs and sustaining the human and natural resource base. There are seven strategic and special objectives, enumerated below, in support of these two sub-goals.

USAID-Egypt is in the process of a significant downsizing in resources. Over a 10-year period (FY00-FY09), the Mission's budget is expected to be reduced from \$735 million to \$400 million annually. As this takes effect, the percentage of resources devoted to trade and investment support activities Strategic Objective (SO) 16, already taking the lion's share of the budget, will increase from approximately 70 percent to nearly 95 percent of the Mission's annual budget in FY09. There will be a phase-out of infrastructure construction activities, as well as substantial reductions for technical assistance activities, in all but one of the seven SOs and Special Objectives (SpOs).

In spite of the downsizing in resources, AID intends to spend \$5.5 billion during this 10-year period. The selection of spending priorities is played out on a complicated field that reflects not only AID development assistance goals and Government of Egypt priorities, but also, increasingly, broader U.S. Embassy guidance. Accompanying this decline in financial resources will be a decline in staffing: from 61 to 15 US direct hires and from 279 to 180 foreign service nationals. The Mission is concerned that this decline in human resources will present issues for the effective management of its large portfolio.

### **Sub-goals and strategic objectives**

USAID-Egypt's seven SOs and SpOs, within its two subgoals, are outlined in this section.

Under sub-goal 1 (creating private sector jobs), there are three SOs or SpOs:

- strengthening the environment for trade and investment (SO 16)
- developing skills for competitiveness (SO17)
- increasing access to sustainable utility services (SpO18)

Over the 10-year period, 85 percent of the total \$5 billion in AID resources for Egypt will be devoted to programs in this sub-goal. Nearly all of it, is budgeted for SO 16, strengthening the environment for trade and investment. Of this amount, nearly \$3.9 billion will be obligated under the aegis of the cash transfer program (Development Support Program [DSP]) and the Commodity Import Program (CIP). DSP and CIP are each slated to receive \$1.9 billion during the 10 years.

DSP does not include any specific policy objectives related to managing the growth of urban areas or focused on urban development policies. It has 10 policy areas designated and agreed upon by the Government, under which specific achievements would trigger the release of funds. These include trade, finance, employment, balance of payments, privatization (e.g., currently, the privatization of each agreed entity earns the disbursement of \$1 million), and financial markets. These may be expanded to include health, education, agriculture and the environment as current technical assistance and construction programs in those areas end over the next several years. Governance has not yet been mentioned as a policy area for inclusion. Specific reference is made in the Mission's Strategic Plan that the policy reform activities being undertaken under the infrastructure SO will be handed over to the Mission's privatization and investment team.

One aspect of SO 16 that deserves mention because of its relationship to urban issues is the micro-lending program. Over 10 years through 2000, AID's microenterprise and loan guarantee program financed 621,000 loans valued at Egyptian £3.5 billion (U.S. \$1 billion) to more than 253,000 small and microentrepreneurs creating an estimated 170,000 new jobs. Three models, making use of foundations, banks, and guarantees, have been developed and implemented on a far-reaching basis.

Sub-goal 1 specifically notes the relationship between the provision of infrastructure and the creation of jobs. SpO18, which encompasses utilities infrastructure, is intended to phase out by 2004 as construction activities end. Some of the benefits flowing from SpO 18 and its predecessors were discussed above. The more than \$5 billion invested has dramatically changed urban life, improving living conditions in countless neighborhoods.

As mentioned above, the model that Egypt presents concerning management of urban issues is one that focuses on sector specific goals (e.g. better drinking water services), on changing the regulatory and legal framework within which utilities operate, improving the efficiency of utilities and, as appropriate, encouraging privatization, and on making use of sophisticated technologies.

In the electric power sector, construction has shifted over the last 10 years from building new capacity to helping improve the efficiency of plants and the reliability of grid delivery systems. In telecommunications, AID capital assistance shifted from increasing the number of telephone lines to the introduction of more efficient technology. AID's infrastructure programs have also included a \$70 million ongoing portfolio of assistance to nine water and wastewater utilities that are introducing accrual-based financial

accounts, cost control, and revenue enhancement; improved operation and preventative maintenance; and customer focus.

The Mission has recognized that to make its infrastructure investments more sustainable, it is necessary to also work on legal and regulatory reforms. These reforms are being supported in a number of ways. There is a very comprehensive effort underway to support changes in the regulatory framework and to make infrastructure, including water, wastewater, power, and telecommunications, more attractive for private investment. For example, AID has supported a Government effort to restructure the national power authority into a private sector-like holding company to facilitate divestiture of generation and distribution units, and the establishment of a regulatory agency. Private investment is being encouraged through several build-own-operate-transfer contracts, and AID helped to establish the Telecommunications Regulatory Agency. In the water/wastewater sector, AID has helped to develop draft laws and presidential decrees to help the transition from a centralized administrative system to a regulatory framework. As in other sectors, AID has encouraged the participation of the private sector. To support this work as well as to complete the infrastructure construction, SpO 18 will be allocated \$165 million over three fiscal years ending in 2003.

### **Egypt: Decentralization to Improve Sustainability of Water and Wastewater Services**

USAID is working to help encourage a shift away from central government responsibility for planning, constructing, and financing basic urban services towards greater local autonomy. More emphasis is to be placed on efficient operations, cost recovery, and better customer service. To support these efforts, AID is also working with the Government of Egypt to promote increased private sector participation through legal and regulatory reform efforts. Expected outcomes include:

- improved sustainability for target water and wastewater utilities through full cost recovery
- improved decentralized utility management, indicated by increases in independent actions on personnel, budget, and related issues
- improved delivery capacity through better systems and more qualified staff

Sources: USAID-Egypt; USAID Water Team, *Towards a Water Secure Future: USAID's Obligations in Integrated Water Resources Management for FY2000*.

The geographical locus of AID water/wastewater infrastructure construction activities has shifted over the years from Cairo to Alexandria and smaller cities located in Middle and Upper Egypt. The Mission strategy states that there is a conscious effort to collaborate with other SO teams in the health, environment, and governance arenas. More

specifically, support, albeit limited, will be provided to NGOs in Alexandria and the seven secondary cities in middle Egypt to facilitate community participation and communications with local authorities concerning the provision of basic services. Mission staff acknowledge that in the current climate in Egypt, which does not favor a role for independent NGOs or meaningful decentralization below the Governorate level, this is likely to be a slow process.

Sub-goal 2, sustaining the human and natural resources base, has four SOs and SpOs:

- improving management of the environment (SO 19)
- healthier, planned families (SO 20)
- Egyptian initiatives in governance (SpO 21)
- improving basic education to meet market demand (SpO 22)

Over the 10-year period ending in FY09, 12 percent of AID resources, nearly \$657 million, will be devoted to programs in this sub-goal. Of this, \$366 million, about 55 percent, will be spent in the first three years of the strategic planning period. Although sub-goal 2 resources are only a fraction of those of sub-goal 1, they represent a substantial commitment by the Mission to a number of activities that directly relate to urban development.

For example, the Mission self-assesses SO 19 as being 40 percent linked to the AID goal of sustainable urbanization. This SO encompasses environmental initiatives that include working with Governorates in Alexandria and Cairo on the privatization of solid waste management, strengthening and supporting the decentralization plans of the Egyptian Environmental Affairs Agency in order to enable it to work more efficiently at the local level, and support for improvements in the air quality in Cairo and elsewhere.

As stated earlier, air quality in Cairo is among the world's worst. For example, a study of environmental health risks conducted by AID in 1994 showed that ambient concentrations of particulate matter were at least five times higher than recommended maximum limits in U.S. or World Health Organization guidelines, and higher than any other major city in the world. AID is addressing this issue by demonstrating new technologies, conducting public awareness campaigns, and by providing technical training, among other strategies. The Cairo Air Improvement Project (CAIP) has introduced compressed natural gas technologies for vehicles, and is providing a demonstration fleet of buses that run on compressed natural gas. It has also introduced vehicle emissions testing, developed plans to relocate lead smelters away from densely populated areas, and raised public awareness about the importance of reduced air pollution to general health. Five demonstration buses are in operation, and 25,000 vehicles have been tested. Cairo's largest private lead smelter and two smaller smelters have agreed to relocate.

USAID experience concerning assistance to the government for the development of urban policies and integrated urban projects has not been very successful when judged by demonstrated impact on national policy. In the early 1980s, AID sponsored a comprehensive National Urban Policy Study (NUPS), which recommended that the

Government adopt lower standards of housing development and re-think its policy of developing large new towns that were not likely to be economically viable in the near or medium term. These recommendations were never accepted and the government has continued to spend large sums of money for the development of new towns. Indeed, the government vision for the twenty-first century maintains this direction.<sup>29</sup> Some of this expenditure is undoubtedly justified; other is much more suspect.

During the late 1970s and into the 1980s, the Helwan Community Housing project became a symbol for the failure of comprehensive, integrated housing projects. The Local Development Urban Projects in the 1980s and early 1990s might be seen as efforts to pick up some of the NUPS recommendations concerning urban and economic planning at the local level and to increase the capacity of local government to implement municipal service delivery projects. The consensus appears to be that the results of these activities were mixed. Central planners never embraced meaningful local level planning processes. Moreover, decentralization of governance responsibilities to the local level is not current national policy.

In tracing the evolution of USAID practices concerning urban policy and integrated urban programs, it seems reasonable to conclude that these unsuccessful and less than successful experiences led to or reinforced an alternative focus for Mission efforts. The Egyptian Government continued to press for massive infrastructure programs, which were clearly needed. The Mission was under pressure to obligate hundreds of millions of dollars every year and to spend those dollars. As a result, the Mission continued, reasonably, to focus its efforts on the provision of infrastructure and also, increasingly, the related regulatory framework that would enable services to be more effectively provided at the local level, as well as to encourage privatization of these services. Many argue that this is a more effective way to promote sustainable urban development than the alternatives that were attempted in the 1980s. Certainly, in an increasingly sophisticated economy with massive infrastructure needs, the institutional approach is a reasonable and necessary part of an effective response and the Mission deserves much credit for pursuing this approach..

Under SpO 21, Egyptian initiatives in governance and participation strengthened, several proposals are intended to support better governance. They appear to be tentative and are subject to Egyptian approval before being initiated. Citizen participation at the community level is to be encouraged as is improving the capacity of civil society organizations to participate in development. The amounts of funds programmed thus far are not insignificant; however, they do not include funds for specific infrastructure incentives. Rather, the funds are for the promotion of participation only. The Mission's view appears to be that it is ready to respond to political change in Egypt, but will do so on a discrete basis where there is demand for it from within Egyptian society, including at the local levels.

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<sup>29</sup>*Egypt and the 21<sup>st</sup> Century*, online at <http://www.sis.gov.eg>.

## **Other donors**

AID is the major donor in Egypt by a wide margin. Other donors present in urban-related sectors include Germany and the Netherlands. However, there does not appear to be any other donor that is addressing urbanization issues with the government in a comprehensive way.

### **c. Conclusions**

As with other countries in the Middle East and North Africa, Egypt's development issues are being played out in an increasingly urban setting. Economic growth will take place largely in urban areas. Improvements in health, education, job creation, and the state of the environment increasingly need to be understood in their urban contexts. The problem that this raises for AID is that the Mission does not have a comprehensive, clearly articulated urban policy framework. How the lives of the urban poor are being affected by the success or lack of success in managing the urbanization process is also not a focus for the Mission.

Because far-reaching urbanization affects each and every goal that AID has, the study team believes this it is important for AID to develop and apply such a comprehensive urban policy framework.

As noted earlier, the indices of social development in Egypt are generally poor, well below what would be expected in a country that has attained Egypt's level of income and development. The indices for governance are equally poor, and clearly have had an impact on the environment for doing business in Egypt. It is reasonable to consider the connection between these two sets of indicators. Improvement in urban governance is generally seen in the development literature as a means to assist development efforts and to improve basic social indicators.

The infrastructure sector approach adopted by the Mission has been successful in improving water, wastewater, power, and telecommunications services to millions of urban dwellers. More than \$5 billion in spending for construction has been combined with sophisticated encouragement for the transformation of the Egyptian statist/centrist approach to the provision of infrastructure services. There have been successes in moving to a more decentralized system within a regulatory framework that is increasingly open to the private sector. Although the spending on construction was an inducement to change, the approach can be used in conjunction with funding supplied from the private sector or other donors. It has been successful and productive.

The Mission has also, over the years, responded to urbanization in other ways that need to be acknowledged, including the efforts underway to work at the community level with NGOs, the examination of the land development processes with Hernando DeSoto and the successful job creation program involving micro-lending for small businesses.

Nevertheless, overall, this approach constitutes a partial response to urbanization in Egypt. Urbanization has fundamentally changed the lives of most Egyptians. Understanding what is happening and ensuring that the Mission's programs are poised to intervene on strategic opportunities is crucial. What this means, first and foremost, is that urban governance needs to be on the front burner in terms of the Mission's strategic approach, not necessarily with large programs to improve it, but with an intellectual understanding that helps shape all AID programs. Urban governance, for these purposes, involve those systems in cities that determine whether or not optimum development will take place in the cities – the setting that is responsible, increasingly, for much of Egypt's GDP.

Urban governance that also responds to democratic aspirations is very much an issue. Ignoring this important part of urbanization invites considerable risk of social unrest. Urban stability as well as economic growth needs to be factored into the mix of AID initiatives.

There is a second aspect to the question of urban governance that deserves attention. This concerns what the impact of the infrastructure approach pursued by AID has been on the urban poor. In other words, how widespread have the benefits been of having large-scale, primary water, wastewater, power, and telecommunications infrastructure? The team was unable to answer this question in the short time that it had in the field. It is clearly necessary to have the primary infrastructure in place, but whether the benefits have reached all segments of the population is not so clear.

Past AID experience concerning urban governance, combined with a lack of attention on the part of the Government, has meant that this part of the needed response to urbanization has not been adequately addressed. While the Mission has undertaken a number of activities at the local community level, they appear to be largely targeted toward NGOs and community organizations. It is also important, however, to involve their potential partners at the local level, i.e. the local governments and other local official organizations.

In addition to the more general area of urban governance and the need to ensure that there are fewer impediments to development because of ineffective governance, there can be little doubt that the focus adopted by the Mission on infrastructure and the framework within which it operates can be strengthened if it is broadened beyond the regulatory framework within which they operate. This broader view concerns the roles that the Governorates and municipalities might play in enhancing infrastructure management for water, wastewater, and other services. Although there is currently no trend toward decentralization comparable to that taking place in other countries in the region, it is important the Mission be aware of what is happening at the Governorate level and below and seek to influence the directions that are taken. This would be important not only from the point of view of water issues, but also health and economic growth.



## 2. Jordan

### a. The Development Context

There is consensus in the development community that the most pressing challenges facing the Kingdom of Jordan are its explosive population growth, severe and chronic water shortage, and shortage of new jobs for its burgeoning population. These issues are clearly interlinked, and in Jordan's case, they play out in an increasingly urban setting. Always a water-scarce country, Jordan's growing population has stretched water usage beyond sustainable levels. Economic growth, with little arable land or natural resources, must take place largely in urban areas, which further strains Jordan's over-taxed water supply. Jordan's quest for economic growth puts it in competition with other countries in the region, and, with increasing globalization, other countries throughout the world.

### **Population: urbanized and rapidly growing**

Jordan is a largely urbanized country; census figures from 1997 indicate that the urban population represents about 74 percent of the country's total. Some more recent estimates put that figure even higher, at around 80 percent.<sup>30</sup>

The majority of Jordan's population is concentrated in just one-eighth of the land, mostly in the northwest. Over 70 percent of the country lives in the three largely urban Governorates of Amman, Zarqa and Irbid. Greater Amman itself has an estimated population of 1.9 million, or roughly 38 percent of the country's entire population, and is more densely populated than New York City.<sup>31</sup> To add perspective to these figures, outside the three major population centers, the country's population is split almost equally between smaller towns, ranging from five to one hundred thousand, and villages with populations under 5,000.

Jordan has had one of the fastest population growth rates in the world, although moderating more recently. Its current population of about 5 million (2000 estimate) is more than double its 1980 population, and more than five times its 1960 population. The current figure is more than eight times its population of 586,000 in 1952, when the first census was taken after Jordan's independence. Current estimates place the annual population growth rate at about 2.8 percent. Even with continuing successful efforts to lower this rate, and an expected target of 2.5 percent annual growth, Jordan's population is expected to double again within 25 years.<sup>32</sup>

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<sup>30</sup>Jordan Agenda 21, ch. 10, Moving from the National Agenda to Local Agendas, the definition being used for these purposes is that urban encompasses those communities with greater than 5,000 inhabitants. There are three urban areas with populations over 100,000 – Amman, Zarqua, and Irbid; eight cities ranging from 50,000 to 100,000; 17 from 20,000 to 50,000; 30 communities from 10,000 to 20,000; and 56 places having between 5,000 and 10,000 inhabitants. Finally, an estimated 1 million Jordanians live in almost a thousand villages and hamlets with populations less than 5,000 people

<sup>31</sup>Jordan's Department of Statistics; National Population Commission.

<sup>32</sup>Jordan's Department of Statistics; National Population Commission.

Jordan's population is very young, about 40 percent is under the age of 15. This marks a decrease from earlier figures of over 50 percent under age 15 in the 1980s. Currently, over 30 percent is between the ages of 15 and 29. Jordan still has fairly high child dependency ratios, but this figure has been steadily decreasing, from nearly 120 percent in the 1970s – where on average, every adult was responsible for at least one child – to 80 percent in the mid-1990s.<sup>33</sup>

Jordan also faces unusual challenges, given the political situation in the Middle East. As a result of the 1948 and 1967 wars with Israel, its total population of 5 million includes roughly 1.5 million Palestinian refugees, most of whom are in camps in urban or peri-urban areas. These camps have become integrated in some ways into the regular urban fabric, but have a markedly lower level of services than other neighborhoods. For 50 years, they have been viewed as temporary and treated as such, although recently the World Bank and the United Nations have begun a limited services improvement program. Jordan received an additional influx of other refugees as a result of the Gulf War in the 1990s, which also brought about the repatriation of approximately 300,000 Jordanians and Palestinians working in the Gulf.

### **Poverty and unemployment: highest in urban areas**

With the sanctions against Iraq, Jordan lost its main trading partner. The Gulf War also forced the repatriation of about 300,000 Jordanians and Palestinians. The much-anticipated growth in economic development from increased trade with Israel has yet to materialize. An IMF restructuring program had begun in 1989, and figures from the early 1990s initially showed a solid growth rate in GDP of about 5 percent a year. It later became apparent that the data was flawed, and estimates were revised to show a growth rate of 1 percent or less annually. Over the past few years, Jordan per capita GDP has fallen, raising unemployment and poverty levels. World Bank estimates in 1997 put the percentage of the population living below the poverty line at 33 percent. Poverty is highest in urban and peri-urban areas and refugee camps.<sup>34</sup>

Given Jordan's tremendous population growth, it is estimated that between 50,000 and 70,000 new jobs must be created annually, and the country has not been able to meet this demand. Official statistics put the unemployment rate at about 15 percent; the actual rate is estimated to be between 25 percent and 30 percent. Unemployment has hit the young particularly hard; official surveys estimate that 60 percent of all unemployed are below the age of 25. Increasing the entry of Jordanian women into the work force remains a concern, although girls have reached parity with boys in access to primary and secondary education. The female unemployment rate is twice that for males.<sup>35</sup>

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<sup>33</sup> Goujon *Population and Education Prospects in ...Jordan, Lebanon, Syria, the West Bank and the Gaza Strip*. IIASA, 1997.

<sup>34</sup> UNDP Country Cooperative Framework for Jordan; DFID Country Strategy Paper for Jordan.

<sup>35</sup> UNDP.

A relatively high level of Jordan's population has attained a university education, and internally, the supply exceeds the demand for doctors, teachers, engineers, and other professionals. Government officials have in recent years tried to direct more students towards vocational training, but these efforts have met with considerable public resistance, particularly given the social status accorded the educated. This oversupply of labor marks a change from the 1970s, where Jordan faced a labor shortage when as many as 40 percent of actively employed Jordanians worked outside the country. This demand was met by a sizeable influx of foreign workers into Jordan, primarily Egyptians. By the mid-1980s, nearly 6 percent of the total population, and 25 percent of the domestic work force, were foreigners. Today the growth in employment opportunities abroad for Jordanians has declined, as the Gulf States and Saudi Arabia find it cheaper to hire Egyptians, Indians, and Pakistanis for those positions requiring higher education.<sup>36</sup>

**GDP and labor by sectors<sup>37</sup>: largely urban-based**

Agriculture represents only a small percentage of Jordan's GDP, just 3 percent, which is not surprising as less than 4 percent of its land is arable. Only about 7.4 percent of the labor force works in this sector. Neither is the country highly industrialized. Jordan's main industries are phosphate mining, petroleum refining, cement, potash, light manufacturing, and tourism; industry makes up about 25 percent of the country's GDP and represents 11.4 percent of the labor force. The vast majority of the GDP is services, about 73 percent. About 10.5 percent of Jordan's labor force works in commerce, restaurants, and hotels; 10 percent in construction; 8.7 percent in transport and communications. Thirty seven percent of the workforce is in the public sector. This last figure is not unusual for the region, where the public sector is often used as a means to reduce unemployment, and so this may also mask the degree of underemployment.

**Health: increased access to health care; family planning**

Although the rapid population growth and low income has placed heavy strains on Jordan, the United Nations Development Programme (UNDP) notes that Jordan is one of two Arab countries whose human development ranking (which considers factors such as life expectancy, literacy, education, and standards of living) is higher than its per capita income ranking, meaning that Jordan has been able to make efficient use of its limited resources in the area of human development. Increased urbanization has brought about increased access to health care. Two-thirds of the Jordanian population has access to a doctor, hospital, or health center within a 10-minute walk from home. Ninety eight percent of Jordanian children have received the basic childhood immunizations.

As preventative and curative medicines have decreased the Jordanian death rate and increased overall life expectancy, greater attention is now turned to family planning and reproductive health issues. Use of modern contraceptives has increased from 27 percent of women of reproductive age in 1990 to nearly 40 percent in 2000. The National Health Commission reports that the total fertility rate among married women of childbearing age

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<sup>36</sup>Goujon.

<sup>37</sup>*CIA Factbook*; UNDP.

has decreased from 7.4 births per woman in 1976 to 3.7 births in 2000. Nonetheless, even as fertility rates decline, the population will continue to increase, as the number of women of reproductive age increases.

### **Water: the contest among users**

One of the greatest challenges facing Jordan is its chronic water shortage. Never a water-rich country, Jordan had been able to cope in the past because of its fairly low population. The high rate of natural population growth, combined with the influx of refugees, has left Jordan in a precarious situation. It now has, on a per capita basis, one of the lowest levels of water resources in the world. The problem is compounded by the fact that Jordan shares most of its surface water resources with neighboring countries, and an equitable distribution has been difficult to work out. Existing water resources are being used at nearly 150 percent above a sustainable level. In addition, significant quantities of non-renewable fossil water are being pumped from aquifers in the south of the country.

If economic growth were to continue at its current rate, demand for municipal and industrial water usage would more than double by 2020. The prospect of a failure to increase industrial and urban share will impose severe limitations on economic growth. According to 1998 figures, 67 percent of Jordan's total water usage was used by agriculture (36 percent in the highlands; 31 percent in the Jordan rift valley); 26 percent for municipal needs; and 4 percent for industry and tourism. Water continues to be highly subsidized. Reducing the percentage of water use in agriculture and making progress on rationalizing the pricing system through the provision of a cost recovery system are significant challenges.

By the late 1990s, Amman's main wastewater treatment plant was treating twice the volume it was intended to handle, resulting in significant environmental and public health problems. Although there has been some progress in controlling industrial effluent discharged into the sewer system, less than half of the industries discharge their wastewater into a municipal sewer following minor pre-treatment. Regulations covering industrial discharge need to be expanded to cover this as well. Household storage tanks and wastewater transport via tankers also continue to be a source of pollution.

The Jordanian Ministry of Water has identified infrastructure projects as a top priority. About 80 percent of investments in this sector are directed to urban water and sanitation projects. Jordan is first concentrating on projects for storage dams, wastewater treatment, rehabilitation of distribution systems, and augmenting urban water supplies. Reuse of treated effluent is an issue that needs to be addressed on a policy implementation level to ensure its regulation and encouragement as an alternative source for irrigation of some high value crops that could be irrigated with treated wastewater.

These investments must be matched with tariff reforms to ensure full cost recovery. World Bank information from 2000 notes that the last increase in urban water tariffs was in 1997. A 12 percent increase on wastewater treatment tariffs for Greater Amman went into effect in the first quarter of 2001. However, these tariff increases on water and

wastewater still lead to a decline in the real value of water revenue. In addition, the tariff structure is in need of reform. The 1997 changes to the water tariff made the rate structure somewhat more progressive, and succeeded in generating additional revenues from large-volume consumers and the majority of the medium-volume consumers for the municipal and industrial sectors only. For the agricultural sector, the water tariff is still highly subsidized and neither matches O&M cost nor approaches the opportunity cost of water. Uniform, volumetric pricing, with a rebate for poorer consumers, would generate more revenues while still protecting the poor.

Equally as important, there need to be changes and improvements in the organization and management of the major institutions of the sector in order to ensure sustainability of the massive infrastructure investments that have been made and continue to be made. Thus, addressing the issues related to the operation and management of these expensive projects in relation to the management and organizational structure of MWI/WAJ. is of high importance, taking into account the financial constraints, budget issues, staff qualifications and incentives in the existing operation and management protocols of MWI/WAJ.

### **Housing and urban infrastructure**

According to the Jordanian Government's Housing and Urban Development Corporation (HUDC), in 1997 there were 710,000 occupied housing units total, with the average urban household consisting of six persons, compared with 6.6 in rural households. Roughly two-thirds of the population lives in housing that is owner-occupied. The average household spends just under 20 percent of its annual income on housing. The HUDC reports water, sewerage, and electricity services are nearly universal. While the UNDP generally confirms these figures – at least in major cities – it also notes that much needs to be done in terms of upgrading these services. The HUDC has been working with the UNDP's Habitat program, and its projects include upgrading slums and increasing the amount of housing for low-income residents while taking into consideration the infrastructure needed for these new areas and the services needed (such as water supply, transportation, and solid waste collection and disposal).

It should be noted that AID had a long-standing Urban/Housing Sector program. AID played a critical role in establishing the Housing Bank in the mid-1970s. The Mission graduated this sector several years ago.

### **Governance issues: public sector reform and decentralization**

The passing of King Hussein and the New Deal of King Abdullah provide the context for a number of developments concerning governance. Reforming government and attempting to make it responsive, and transparent has become a major theme. Public sector reform, with World Bank support, and within the purview of the Higher Economic Consultative Council, is being pursued in a number of ways. These include the restructuring of central government departments, the preparation of manuals for citizens on how to interact and obtain services from government, the writing of formal

job descriptions for public sector employees, capacity building within government, and (of interest for this assessment) local administration reform. Issues of decentralization are increasingly in the public eye.

As in many countries in this region, there is a dual system of local administration. One part of the administration is through the 12 governors who report to the Minister of the Interior and who have overall responsibility for all governmental activities in their local areas, as well as a role in maintaining internal security. The other is through municipalities and other bodies that are responsible to the Minister of Municipal, Rural, and Environmental Affairs (MMREA). The relationships among these two Ministries at the central level and each of the Governorates are characterized by change and, sometimes, tension.

Over the years, many of the responsibilities that were once vested in municipalities have been withdrawn and transferred to central government or to public corporations. For the most part, municipalities are resource poor, lack trained staff, and are largely unable to carry out complex development tasks. In the current 328 municipalities, there are over 16,000 employees. Only 581 have university degrees. Of these, only about 60 are located in municipalities outside the three largest cities.

The Greater Amman Municipality is an exception to this record of poor resources and staffing and seems to have been able to carry out a number of development activities, benefiting from its location and status as the capital. Amman has its own statutes and has a system of elected and appointed councilors and Mayor that seems to balance participatory and technical needs. Other large and small cities, e.g. Zarqua, are not as well off.

The new Minister of MMREA, himself a former Mayor, and the Government have recently embarked upon a program of merging municipalities with the ultimate aim of reducing their numbers to perhaps one third to one half of the original 328. Political and tribal issues were behind this ministerial/government decision and there seems to be at least some opposition to what has been characterized on the surface as an effort to improve local government capacity and finances, both of which are sorely needed.

This initiative has been attacked as an effort to dilute local power and to move local government further away from local control, and it has been noted that at least some of the councils affected by this decision were controlled by elements of tribal rulers that affected sound municipal operations and revenue collection activities on the municipality level.

Overall, depending upon how events unfold, this might provide a way to strengthen local government, or it might be simply another way to dilute its power. It appears that the intention is to model the local government system more after that of Greater Amman Municipality (where half of the council members are political appointees and the other half are technical/working level appointees representing their individual organizations).

## **b. AID in Jordan**

Jordan has one of AID's largest programs, due principally to American interests in supporting the Middle East peace process. Jordan's OYB for FY03 is estimated to be \$150 million.

AID's program in Jordan is concentrated in three separate, but related, areas: water, population, and jobs. The problems being addressed are captured in AID's strategy statement: too little water; too rapid population growth; and too few jobs. Jordan has one of the highest proportion of urban populations to total population in the region (approximately 75 percent), and the program has had a major impact in urban areas.

### **Strategic objectives**

USAID-Jordan's three SOs are: improving water resources management; increasing access to and quality of reproductive and primary health care services; and increasing economic opportunities for Jordanians. Funding is approximately 40 percent for water management, 10 percent for health, and 50 percent for economic opportunities. However, the program can be viewed another way: approximately a third of funding consists of a cash transfer, another for infrastructure construction, and the remaining third for technical assistance.

### **Water**

The United States is the largest grant donor in Jordan's water sector. Over the period FY 1993 to FY2001, AID obligated over \$350 million for water management. The water SO has had three results: strengthening water sector institutions; increasing the efficiency of use of water resources; and improving wastewater treatment. FY03 OYB for water sector activities is estimated to be \$58 million. AID's activities have included such projects as the Greater Amman Water System Rehabilitation, the Aqaba Wastewater Treatment Plant, and considerable work on water tariffs. It is clear these activities have had considerable impact on urban dwellers. A water conservation initiative is underway that is aimed at changing water use behavior.

The Mission's self-assessment of areas in which the water program is linked to AID's strategic framework does not mention any contribution to sustainable urbanization. Rather, it indicates that the water program is primarily directed toward sustainable management of natural resources (57 percent), more rapid agricultural development (33 percent) and more transparent and accountable government institutions (10 percent). In spite of this omission, it seems clear that the Mission's water program has contributed significantly to sustainable urbanization. The Mission works most closely with the Water Authority of Jordan, the Ministry of Water and Irrigation, and the Jordan Valley Authority in carrying out the water program.

A brief review of the activities being carried out to meet the water SO demonstrates the complexity of initiatives seeking to improve water resources management. These

include support for changes in water policy, analyses of the cost of water, assistance in helping institutions in their contracting capabilities, educating the public, upgrading water inspection facilities, and helping the Greater Amman Municipality, through a Resources Cities Partnership with Des Moines, Iowa (see next page for a description ) to address hazardous wastes that are impacting groundwater resources.

One of the most important water issues concerns the organization and management of the entities that are involved in the provision of water, principally the Water Authority of Jordan. While there have been considerable amounts of funding in the past for construction of water and wastewater facilities, a relatively small proportion has been devoted to organization and management issues. The three largest urban areas are better managed, but there is a considerable decline when it comes to the smaller urban centers. This is a common situation in most countries in the world, and frequently the policy response involves efforts to put in place some kind of decentralization of activities and responsibilities to either the municipal level or the regional level.

A review is currently being undertaken by the Mission of its water SO. It is likely that additional examination will be recommended for the question of sustainability of water investments and the possibility of support for some level of decentralization of responsibilities from the center to either the Governorate or municipal level. The water SO team works closely with the Ministry of Health and the health SO team in assisting local governments to address water quality issues, watershed management, and to rehabilitate contaminated, closed-down ground water resources that are used to supply rural cities and villages.



### **The Resource Cities Program & Summary of Partnerships in Asia**

In May 1997, the International City/County Managers Association (ICMA) and AID created the Resource Cities Program (RCP) to improve the quality of local government administration and to strengthen democracy through international municipal partnerships. Through RCP, management practitioners from the United States and city officials from developing and transitional countries share resources and technical expertise to improve the management and quality of public services. U.S. municipal officials and technical experts provide their time on a pro-bono basis, and AID pays for limited ICMA management support and direct costs such as travel, per diem, and interpretation. RCP is implemented through a cooperative agreement between ICMA and AID's Office of Environment and Urban Programs. Examples include:

#### **Greater Amman Municipality (GAM) and General Corporation for Environmental Protection (GCEP), Jordan and Des Moines, Iowa**

Partnership objectives:

- assist GAM identify best practices and strategies to help ensure that the collection and disposal of domestic waste by municipalities does not contaminate groundwater sources
- assist GCEP develop a strategy that helps ensure hazardous waste is collected and disposed of in a safe and effective way and does not contaminate ground water sources
- assist GCEP develop a strategy that helps ensure liquid waste is collected and disposed of in a safe and effective way and does not contaminate ground water sources
- identify and implement one or more pilot initiatives to achieve the above objectives
- identify training and capacity building needs to achieve the first three objectives

#### **Cebu, Philippines, Fort Collins and Larimer County, Colorado**

Partnership objectives:

- improve solid waste management through the design of a framework for a 10-year, comprehensive solid waste management plan that will incorporate donor and private sector financing
- reduce volume of waste entering landfills
- introduce recycling and composting to at least one Filipino barangay

#### **Haiphong, Vietnam, Seattle, Washington (co-financed by USAEP and AID)**

Partnership objectives:

- promote Haiphong's tourism and business investment strategies
- assist Haiphong to use information technology in internal city management applications
- provide technical assistance in neighborhood matching grant programs
- offer assistance with the calculation and assessment of business tax liabilities, tax policy, and assessment of proposed business plans

**Other cities taking part are: Rayong, Thailand and Portland, Oregon (funded by the United States – Asia Environmental Partnership (USAEP) and Ulaanbaatar, Mongolia & Bakersfield, California.**

## **Health**

The United States is the largest health sector donor to Jordan. The mission's health SO focuses on increasing knowledge of contraceptives, increased availability of reproductive and primary health care services, rationalization of the health care financing system and comprehensive postpartum care centers. Its OYB for FY03 is \$18 million. A large portion of the SO budget goes to support 21 primary health care centers and to provide support for all of Jordan's 380 public health centers that serve middle and low-income populations. The R4 notes a certain dissonance connected with an apparent leveling off of use of contraceptives combined with a continuing decline in fertility, which the mission is studying.

The Mission's self-assessment of areas in which the health program is linked to AID's strategic framework does not mention any contribution to sustainable urbanization. The health program focuses on reducing unintended or unplanned pregnancies. The Mission works primarily with the National Population Commission, the Ministry of Health, and the Jordan Association for Family Planning and Protection.

## **Economic growth**

USAID-Jordan's economic growth SO focuses on increasing access to business services, improving the implementation of economic and business reform policies, and providing balance of payments support. It has the largest of the SO budgets, at \$74 million for FY03 (which includes a substantial cash transfer). AID is the country's largest donor in this sector.

The Mission's Economic Opportunity Office has made efforts to incorporate urban issues into the current SO framework. For example, before the office undertook the micro-lending activity, it conducted an extensive household survey focused primarily on the working urban poor. The successful micro-lending program reflects this focus.

A second example concerns the efforts of AID to create an attractive regional hub and economic center in Aqaba, through support of the Aqaba Special Economic Zone (ASEZ). This assistance has resulted in the preparation of an integrated urban development plan; training for ASEZ Authority, which manages the zone; and various other Government departments, especially customs; construction of an industrial estate; expansion of a wastewater facility; and rehabilitation of a family planning clinic. This appears to have been an integrated urban activity. Its goal has been to promote favorable economic conditions that will generate employment, largely through enhancement of tourism and light industry. The master plan concentrates on general quality of life issues and seeks private sector solutions to urban problems, when possible. Low-income housing is a potential activity which AID is currently exploring, with consideration given to making use of AID's Development Credit Authority.

## Other donors

The World Bank has been the largest donor active in urban programs, beginning more than 20 years ago, along with CIDA, JICA, DFID, and KfW. The World Bank's current urban project targets community infrastructure in villages, towns, and municipalities across the country. The World Bank is also planning to do sector work in local government and urban management, commencing later this year.

### c. Conclusions

Jordan's development issues are being played out in an increasingly urban setting. Economic growth, with little arable land or natural resources, must take place largely in urban areas. The Mission, through its Economic Opportunity Office, has made an effort to incorporate urban issues into the Mission's overall strategic framework. However, it does not now have a comprehensive and clearly articulated framework for assessing the urbanization processes at work in Jordan, nor for the issues that are most important for urban viability. How the lives of the urban poor are being affected by the success or lack of success in managing the urbanization process does not seem to be well understood. The team believes this is important, needs to be better understood, and should form the basis for informed decisions on work to be undertaken over the next five years.

Broadly speaking, the Mission's assistance in the provision of infrastructure services has made a valuable contribution to the living conditions of many urban Jordanians. It is, however, an incomplete response. First, there remain considerable problems concerning the provision of infrastructure services to the poor (access by the poor to the improved services), and second, the capacity of local governments and local systems to manage the urbanization process that is taking place is very much in doubt. In some ways, the Greater Amman Municipal Authority appears to be quite a sophisticated operation. However, other municipalities do not approach the Amman level.

There are clear signs emerging that the King and his administration are more favorably disposed to some form of decentralization and, at the very least, to the strengthening of government at both the central and local levels to provide better services. This is likely to be a very delicate process, but it is one in which AID could be of assistance. In doing so, considerable help could be provided towards improving conditions in urban areas in the poorer parts of Amman and in the other larger urban centers. In turn, this would help promote greater long-term stability and would also reinforce the Mission's objectives concerning health and job creation.

Decentralization of water resources management appears to be an approaching reality. From discussions within the Mission, it seems likely that water resources management will become more effective if decentralization measures are pursued and strengthened. A narrow view of this might focus exclusively on the institutions directly responsible for the provision of water. A broader view concerns the roles that the Governorates and municipalities might play in enhancing water resources management. Given the evolution likely to take place over the next five years in these different levels of local

administration, it is important that the Mission be aware of what is happening and seek to influence the directions that are taken. This would be important not only from the point of view of water issues, but also health and economic growth.

The third subject that bears scrutiny concerns the Aqaba Special Economic Zone. The Mission has correctly and imaginatively combined resources from a number of different programs to promote an integrated economic development zone. Mention was made of the possibility of introducing a housing component with DCA financing. This sounds like an excellent initiative. In exploring this possibility as well as the eventual design of a program, it is important that the Mission have direct hire AID assistance. This advice should be readily available from RUDO.

The study team believes that the development of a coherent policy framework for urban improvement that embraces the significant dimensions of economic and social conditions and quality and competence of urban governance is an important next step for USAID-Jordan. Realization of this step would seem to require creation of a mechanism within the Mission that will ensure that this takes place. The Mission is small, with only 11 USDHs. Nevertheless, it would be important, if this evolving approach is accepted in whole or even in part, that there be a person designated to shepherd this approach through, who would be responsible for developing targets and indicators of success.

### **3. Morocco**

#### **a. The Development Context**

The late 1990s ushered in a period of tremendous political change in Morocco. After the 1998 national elections, a long-time opposition leader, Abderrahmane Youssoufi, was appointed prime minister – the first time an opposition leader has become prime minister in independent Morocco's history. The following year saw the ascension to the throne of Mohammed VI. King Mohammed has accelerated the economic liberalization policies initiated in 1992 by his father, King Hassan II. Perhaps even more significantly, King Mohammed has begun serious political reforms, even including overhauling the Ministry of the Interior. He has focused new initiatives on education and health standards and other key social sector reforms. These reforms, however, come at a time when the economic and social challenges facing Morocco continue to rise. Economic growth has been very slow as the country faces poor harvests, rising unemployment, and a trade deficit-linked currency devaluation. The country faces increasing external competition with globalization, and its institutions – economic, political, educational, health – are all in need of modernization and reform.

Although Morocco is a lower middle-income country, many of its social indicators are at the level of much poorer countries. Poverty levels have been rising, and social gaps remain very wide in spite of recent progress. Morocco is becoming increasingly urbanized, and while the population growth rate has declined, the growth rate for cities remains high. Much of this growth has been in newer cities, ill-equipped to handle such

increases. Jobs, education, services, and housing for this growing population remains a major on-going challenge.

As with other countries in the Middle East and North Africa, water issues are constantly at the forefront. Decentralization in some form is an increasingly important topic and presents extraordinary opportunities for a fundamental change in Morocco's approach to development.

### **Moroccan society: young and increasingly urban**

Moroccan society has moved from being predominantly rural to becoming increasingly urban. In the years between the 1982 and 1994 censuses there was an increase of more than 1 million urban families. From 1960 to 1994, Morocco's total population grew by more than 120 percent – from 11.6 million to 26.0 million. In this period, the urban population almost quadrupled growing from 3.4 million urban residents in 1960 to 13.4 million in 1994. Between 1960 and 1997, the urban population grew by an annual average of 370,000 people – the equivalent of a large city each year. As of 1999, 55 percent of the country's 28.2 million people lived in urban areas.<sup>38</sup> (July 2001 estimates now place the Moroccan population at 30.65 million.<sup>39</sup>)

Indications suggest that this trend will continue, and projections estimate that Morocco's total population in 2020 will be roughly 38 million, with 70 percent living in cities. Within this same time-frame, Morocco's current overall annual growth rate of 1.7 percent is expected to drop to 1.4 percent, but the annual growth rate for the urban population is projected to approach almost twice that – 2.5 percent. The annual increase in urban population will average 460,000 people – roughly the equivalent of the 1994 population of the capital, Rabat.

Greater Casablanca has a population of nearly 3 million, and there are at least 10 cities with populations around 500,000. The area with the greatest population is the major population axis along the Atlantic from greater Casablanca to greater Rabat; it holds nearly one-third of Morocco's total urban population. In addition to this long-standing corridor of urbanization, other areas are also seeing increased urbanization. Unlike other countries in the region, more and more of Morocco's rural population is migrating not to the larger cities, but to small and medium-sized towns. A contributing factor in this is the increase in the number of provincial capitals and urban municipalities. In an attempt to get a handle on the country's rapidly growing population, the Moroccan government has been steadily increasing the number of administrative units. Between 1982 and 1994, the number of provinces and prefectures rose from 45 to 65, and the number of

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<sup>38</sup>Under the EPIQ IQC( USAID contract no. PCE-I-00-96-00002-00; task order no. 818), the PADCO team of Jerry Erbach, John Bachmann, Driss Benjelloun, and Paul Saada, conducted an Urban Development Assessment in Morocco in November 1998. Their thorough report provides a great deal of information on urban issues in Morocco. Much of the information presented here is taken from this report, unless specifically noted otherwise.

<sup>39</sup>*CIA Factbook.*

municipalities rose from 45 to 248. Since 1960, the number of cities has more than tripled. Between 1970 and 1994, the average population of a city increased by 37 percent. Many of the newer cities are former rural agglomerations that lack the basic structures and systems needed to perform their new urban functions.

Like other countries in the region, Morocco's population is quite young. According to the 1994 census figures, 37 percent of the population is under 15 years of age, 48 percent is under 20, and 65 percent is under 30. Although the rate of population growth has declined, the relative youth of the population represents a particular stress on the country's resources that will continue to grow as efforts are made to meet education, employment, health, housing, and other needs. These may pose a greater difficulty than generally recognized, given the huge deficits already present, and the reproductive potential of the young population.

### **Employment challenges in a global economy**

The 1980s saw Morocco's economy grow at a fairly high rate with the development of exports, but there has been an overall slowdown beginning in the 1990s. Morocco's macroeconomic picture is challenged by the series of severe droughts, on average one every three years, but is deemed by the World Bank and others to be relatively stable. The difficulty being faced lies in increasing the annual growth rates to at least 6 percent in order to insure better employment rates for the growing population. Although GDP growth reached 6.5 percent in 1998, the following year saw it drop to 0.1 percent due to insufficient rainfall, a slowdown in the non-agricultural sectors, and weak export performance. A loss of momentum in the structural reform process has also contributed. Low and even negative job creation, particularly in the manufacturing sector, has increased urban unemployment.<sup>40</sup>

According to 1994 figures, the labor force was estimated to comprise 32 percent of the total population. It is a predominantly male labor force, with only 20 percent of the women in the labor force. Since the 1980s, unemployment has become an increasingly urban issue, one that particularly affects young people, especially women. The official unemployment rate is roughly 16 percent, but other estimates are as high as 25 percent. Of those unemployed, about 71 percent were young people looking for their first job. Roughly 30 percent of the total unemployed are women, and, of these, 80 percent were seeking their first job. It is now in the urban areas where the majority of the unemployed are to be found – nearly 70 percent of the total.

Estimates suggest that the labor force will continue to grow over the next 10 years or so at a rate higher than the overall population growth rate, with an average annual growth rate of about 2.8 percent, an average of 277,000 new job seekers a year. This is even more pronounced in urban areas, where the labor force is estimated to be growing at about 5 percent year, while employment in urban areas has been growing at only 3

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<sup>40</sup>World Bank figures from May 2000.

percent to –4 percent annually.<sup>41</sup> In addition to the unemployment rate, the precariousness of employment and the weakness of the social safety net are of significant concern.

A key element of rapidly growing economies is the flexibility to direct economic resources toward more productive activities, yet Morocco's economic structure has remained largely unchanged for 25 years. Agriculture has represented roughly 17 percent of the GDP and employed 40 percent of the labor force, with industry representing 33 percent of the GDP and 15 percent of the labor force and services making up 52 percent of the GDP and employing 35 percent of the labor force. Given the agricultural sector's chronic vulnerability to drought, this lack of diversification presents an even greater burden as the country tries to achieve longer-term sustainable growth.<sup>42</sup>

While a globalized economy presents larger markets and new job opportunities, it also requires better-trained workers and higher quality standards. The lack of qualified and appropriately trained personnel is a significant concern of private sector employers, who cite it as one of the main constraints for businesses in Morocco.<sup>43</sup> The high unemployment rate among recent university graduates, estimated by many to be at 25 percent or more, suggests a serious mismatch between the formal education system and employer needs. Globalization requires better-trained employees, even for unskilled jobs. The slowdown in Moroccan exports shows that having a lower wage structure than competing countries is not sufficient to maintain competitiveness. Morocco's low rates of literacy are a significant constraint in the country's efforts to expand its economic base.

### **Social indicators: much progress, but much more needed**

Despite significant improvements over the past decades, Morocco still lags behind countries of comparable income levels in terms of poverty, equity, health, and education. Roughly 19 percent of the population lives below the poverty line – a 50 percent increase from 10 years ago.<sup>44</sup> Two thirds of the population have a per capita income less than the national average. The infant mortality rate is 52 per 1,000 births, compared to the regional average of 35 deaths. While literacy rates have vastly improved from the 1960s, when almost 90 percent of the population was illiterate, roughly half the population remains illiterate today. That compares to an illiteracy average of one third of the region's population.<sup>45</sup> Although the Government has allocated significant resources for education, these resources have not been used efficiently, and there has been a bias in favor of secondary education despite the need to focus on basic literacy.<sup>46</sup> The lack of basic infrastructure services, particularly in rural and peri-urban areas is also a significant contributing factor. These areas provide a large pool of job seekers who migrate to urban

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<sup>41</sup>World Bank, *Kingdom of Morocco: Private Sector Update: Fulfilling the Promise of Private Sector-Led Growth*, Report No. 19975-MOR World Bank, 1999) p. 1.

<sup>42</sup>*Kingdom of Morocco: Private Sector Update*, p.3.

<sup>43</sup>*Kingdom of Morocco: Private Sector Update*, p.10.

<sup>44</sup>World Bank figures from May 2000.

<sup>45</sup>World Bank figures from May 2000.

<sup>46</sup>*Kingdom of Morocco: Private Sector Update*, p. 11.

areas, particularly during periods of drought. Even if more resources are devoted to education programs, if basic services are lacking, children – especially girls – are less likely to be enrolled, as opportunity costs are quite high.<sup>47</sup>

### **Investment: low expenditures hurt economic development**

Under its restructuring program in the 1980s, Morocco made great strides in reducing its deficit. This reduction, however, came at the expense of investment expenditure, rather than through improving public sector efficiency and reducing current expenditures. Public investment expenditures had supported economic development and complemented private sector investment, and these reductions were a major factor in the overall downturn in total investment. Civil service wages take up roughly 45 percent of Morocco's fiscal revenues, and debt service absorbs another 23 percent.<sup>48</sup> Morocco's investment budget is roughly 23 percent of state expenses. In 1996, the state expended an average of 2,500 DH per inhabitant, of which an average of 625 DH were committed to investment (U.S. \$243 and U.S. \$71, respectively). Within the investment budget itself, 35 percent goes to ministries and other agencies responsible for development and provision of facilities, while 13.4 percent goes to ministries and agencies responsible for social development. Although these data are presented by the National Capital Accounts, it should be noted that not all of these funds are used exclusively in fixed capital formation. According to 1998 figures, Morocco allocated only 7.7 billion DH to gross fixed capital formation – an average of just 287 DH per person (roughly U.S. \$30). So, while the budget shows 2,500 DH per capita, only 287 DH per person is actually consumed by the public sector for the provision of infrastructure.

### **Local governance and decentralization: legal framework being developed, but implementation still proves challenging**

The Kingdom of Morocco, a constitutional monarchy, has the King as the head of state. He appoints the Prime Minister, and, with proposals from the Prime Minister, the King also appoints the other members of the government. A regional approach to territorial administration was initially introduced in Morocco in 1971.<sup>49</sup> Economic regions were established on the basis of geographic, economic, and social relationships with the hope of promoting greater and more equitable development among the provinces. The boundaries of these regions, however, often had the effect of reinforcing these differences. Since there were no genuinely regional institutions, the regional implications of the law were not well understood or applied. Instead, work at the regional level continued to be carried out by the central Government. Regional assemblies and their elected representatives remained too institutionally weak to provide significant management or direction. Subsequent amendments have strengthened regional authority, particularly the constitutional referendum in 1996 that approved a bicameral Parliament

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<sup>47</sup>*Kingdom of Morocco: Private Sector Update*, p. 24.

<sup>48</sup>*Kingdom of Morocco: Private Sector Update*, p. 7.

<sup>49</sup>This and following from Laird, Michèle Olivier, "Municipal and Regional Finance Assessment: the Potential of Credit as a Development Tool," Abt Associates (under USAID contract no. PCE-I-00-8007-00), December, 1998, pp. 3-4; pp. 26-27.



and Chamber of Councils. The establishment of this second chamber has helped the decentralization process by providing a means for regions to present their perspective at the level of the national government. Regional councils still face a number of major obstacles to becoming truly effective. They only meet three times a year, for only a few days. They have very limited staff and their financial resources are both very limited and unpredictable. Furthermore, deliberations continue to be made under the governor, which may well hinder the development of a true regional institution, given the governor's role as a representative of the central Government.

Local governments have limited autonomy because of the high level of central Government supervision built into the administrative system. Although recent legislation has opened substantial areas for local initiatives, most municipalities have been reluctant to expand their activities and to accept a more dynamic role in their own development. Ironically, decentralization and application of the electoral system at the municipal level may have weakened the role of municipalities. The members of a municipal council are elected not by lists, but by districts, and on an individual basis. This weakens municipal solidarity and can lead to difficulties in adopting a budget. The narrower view of an elected official might take precedence over community solidarity within a municipal council, putting serious constraints on the council's ability to act. Elected officials are often more interested in getting the maximum amount of benefits for their districts during their time in office. This results in a patchwork of unrelated small, local projects rather than any overall structuring of the urban fabric or any long-term planning.<sup>50</sup>

Municipalities face numerous other barriers to improving performance. These include: poor budgeting and accounting procedures; constraints on their ability to influence the mobilization of locally-generated financing through the collection of taxes; ill-defined roles and responsibilities and boundaries for intervention; inability to influence service provision outside municipal control; confusing legislation concerning commercial ventures in which municipalities may or may not participate; and the opacity of the legal system. Municipalities can identify their urban services needs (in health, education, sanitation, housing, etc.) but they are not responsible for the actual provision of these services. Often, it is the responsibility of offices of the central Government, which will have their own priorities.

The on-going study of decentralization being carried out by the Mission has highlighted a number of weaknesses in the local governance structures. These include a lack of participation in the governance processes by communities and civil society. At another level, there is a lack of participation by local councilors in the business of councils, leaving much of the direction to the chairmen of the councils. The study also notes that little attention is given by many local governments to the need to improve the delivery of services. Partnerships with local organizations are also weak. The study discusses the lack of capacity in local government staff and the desire by many staff to leave for better jobs in the central government administration. Systemically, the study also notes great weaknesses in the decentralized planning system. The total picture being painted is not

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<sup>50</sup>In addition to Erbach, Laird makes similar arguments.

an encouraging one in terms of present capacity. This is cause for great concern, given the ever increasing urbanization and the fact that much is expected of the local governance structure. It is also the source of enormous potential gains in governance and development.

### **Municipal finance: new laws create opportunities, but institutional capacity lacking**

While Morocco continues decentralization efforts by trying to reinforce financial and budgeting capacities at the municipal level, there remain a number of barriers. The major obstacles include limited institutional capacities; insufficient resources, both human and financial; lack of managerial abilities and systems; local elected officials' over-reliance on the central government to define local development programs; and the inability of municipalities to make use of local, private sector expertise. Municipalities now get an up-front share of the revenues generated from the value added tax (VAT). VAT represents 20 percent of all government resources; about 30 percent of VAT funds are used for local government finance, representing 45 percent of local government resources. VAT funds are distributed at the local level as follows: 70 percent to support project budgets or procurements; 15 percent for investments expenses; 10 percent for projects between communes; and 5 percent for unforeseen and extraordinary expenses. Key to this change in central government financial support to municipalities is that municipalities now have a predictable revenue stream against which they could borrow to finance investments. Other revenues come from taxes shared with the central government. There are 37 or so different local taxes, many of which are fixed at the national level and do not allow municipalities to take full control of their reception. A large number of these taxes are old and out-dated, having been put in place before Morocco became monetized. Some are more costly to collect than the revenue they might generate. Many are also very unpopular, and so municipalities make little effort to collect them.

Local governments are required to submit balanced budgets for review and approval by the Ministry of the Interior and the Ministry of Finance. They are required to establish both operating and investment budgets. The operating budget is strictly annual. Any expenses not consumed by the end of the fiscal year are canceled. Canceled credits often include real municipal debts that will then have to be regularized in the following year's budget or their remainders mandated. The investment budget can carry over expenses for the following year. Important maintenance expenses are often left out of the operating budget in order to be able to insert them into the investment budget open for bids. If they are in the operating budget, there is the risk of having them canceled if the funds are not committed by the end of the fiscal year. Municipal accounting systems involve only simple expense and revenue ledgers and do not include any real financial planning, assessment or control functions.<sup>51</sup>

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<sup>51</sup>Laird, p. 7.

## Urban planning in Morocco

The planning law of 1914 (early in the French Protectorate period) was one of the first to combine a forward-looking planning perspective with the operational means to control urban development. Since that time, urban planning in Morocco has focused mainly on the physical aspects of urban development and design, and on controlling, rather than stimulating or guiding urban development. Even the more comprehensive 20-year master development plans (*Schéma Directeur d'Aménagement Urbain* [SDAU]) introduced in the 1970s have included little, if any information about economic or social development, or about the institutional and financial conditions required for their implementation. Nor have the possible effects of development taking place around the boundaries been factored in.

Despite the fact that the nature, speed, and size of urban development in Morocco have changed immensely since the mid-1950s, the legal and regulatory framework has become increasingly tedious and restrictive over time. Although the planning documents are generally of high technical quality, they do not respond to today's real needs. Public authorities have been unable to control the large-scale unauthorized development along the peripheries of many cities. These unauthorized developments are the result of a number of pressures, including the depletion of government land reserves that had been used in the past for low-income housing; the virtual elimination of land expropriation as a means to obtain land for public sector housing needs; the establishment of local taxes on subdivisions that discourage formal private development; and obligations of land developers to contribute to the financing of off-site infrastructure where none is available.

The Ministry of Regional Development, Environment, Urban Planning and Housing (MATEUH) has identified the following as major concerns: the continued rapid growth of substandard housing areas that are growing at a rate of more than 25,000 housing units a year; the emergence of entirely new and unplanned neighborhoods that completely surround cities and constrain planned future development; increasing exploitation of non-renewable natural resources that represent costs to the national economy of more than 8 percent of GDP; and the persistent spatial imbalance in urban development between the coastal areas and the interior.

### Urban housing: critical unmet needs

Bidonvilles (shantytowns) and other forms of substandard housing are again increasing as traditional low-income housing areas become saturated and more and more migrants are moving into small and medium-sized cities.

To meet regulations to legally subdivide residential land, the following conditions must be met: the land needs to be registered, subject to an urban planning document, and connected to urban infrastructure networks. The difficulties are manifold: less than half the urban land has been registered. Estimated annual needs for newly developed urban land are roughly 2,730 hectares per year. By contrast, in 1998 the average pace of

registration was 680 hectares per year. In terms of planning documents, a number of urban centers are not subject to a planning document either in whole or in part. In addition, there are substantial delays in the process of approving and adopting a plan. Finally, the lack of off-site infrastructure can delay urban development for several years. As a result of new laws and regulations, limited municipal resources, and the reduction of government land available for development, large parts of cities have been inadvertently removed from all forms of urban regulation.

In 1998, the estimated annual increase in housing units needed to both address existing deficits and meet new housing needs was 190,000 units a year over a dozen years. The problems of urban development in Morocco due to difficulties with land titling and urban planning have negative consequences not only on housing production, but also on the provision of basic infrastructure. The most critical of these are linked to public hygiene and the environment, including water, wastewater, and solid waste management. Housing in unauthorized neighborhoods had only 26 percent of the units connected to potable water, 43 percent to a sewer network, and 50 percent to electricity.

The structural problems in the rural areas, made all the more evident by the droughts of the past several years, have led virtually all of the ministerial departments to increase their interest in urban areas. These areas, considered from the perspective of urban livability, , suffer more from inadequate infrastructure (potable water, electricity, access roads, etc.) and facilities (education, health, etc.) than from the conditions within the housing unit itself.

### **Urban pressures on water supply**

The increase in urban population contributes to the growing competition for limited water resources, both because of the increased urban needs, and the need for increased agricultural productivity to feed this growing population. Given projected population growth and unchanged usage patterns, water availability per capita will be halved by 2020.<sup>52</sup> The agricultural sector, dominated by cereals, is protected by trade restrictions, tax exemptions, price supports, and subsidies, including subsidies on the cost of water. Irrigated agriculture uses 85 percent to 90 percent of all mobilized water in Morocco.<sup>53</sup> Water requirements for urban and industrial users, however, are rising at a much higher rate than those for agriculture and hydroelectric power.

Water pollution in Morocco is due in large part to dumping untreated urban and industrial waste into the surface and groundwater network. Urban wastewater collection through a piped sewerage system concentrates pollution at a smaller number of discharge points, exacerbating water pollution in the absence of treatment. The wastewater sector lags far behind the water supply sector. All large cities and about 85 percent of the towns with 5,000- 20,000 residents have piped wastewater connection networks. The problem is that connection rates are quite low. Furthermore, many of these networks are quite old (dating from the colonial period) and in desperate need of rehabilitation. Service levels

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<sup>52</sup>World Bank figures, May 2000.

<sup>53</sup>World Bank figures, May 2000.

and treatment are even lower than collection rates. The vast majority of wastewater collected in urban networks is dumped untreated into the natural environment.

Poor or nonexistent liquid and solid waste treatment also contributes to water pollution by leaching into the groundwater reserves. Urban waste disposal is a greater problem than collection; only one-third of collected waste is recycled or disposed of in a sanitary landfill. Although collection rates for industrial waste are near 100 percent, most of it is dumped in uncontrolled municipal and industrial dumpsites.

Morocco's rate of infant mortality is higher than other countries of comparable income levels. Diarrhea is the main cause of infant mortality. Morocco also lags in other health indicators. The major cause of diarrhea, as well as cholera, typhoid, and other water-borne diseases, is contamination of ground and surface water by fecal matter. Inadequate solid waste disposal can also cause bacteria, viruses, and parasites to enter the potable water system. In addition, reuse of untreated wastewater for irrigation has led to the spread of diseases. There have been three major outbreaks of cholera since the 1970s. The incidence of cholera increased 115 percent between 1994 and 1995, and 60 percent of all cases were in urban areas. While incidences of typhoid fever have been declining in Morocco since the 1980s, most recent outbreaks have been directly linked to contaminated drinking water caused by deficient waste management.

#### **b. AID in Morocco**

##### **Background**

AID has been present in Morocco for more than 30 years. Although its resources available for Morocco are now generally smaller than the assistance provided by other individual major donors, AID remains a valued development partner in Morocco.

Morocco presents yet a different aspect of AID's approach to urban programs in the Middle East region. First, unlike its sister Missions in the Middle East, USAID-Morocco, has relatively limited financial resources. Its current OYB request for FY03 is \$13.6 million. Second, it has had a significant housing and urban development program with substantial Housing Guaranty (HG) loans since the 1980s.

As a result of the availability of the HG resources and the substantial urban programs that these loans financed, there has been a housing and urban development officer in the Mission since 1987, reporting to the Mission and supported by RUDO. When the RUDO closed its doors in Tunisia in 1996, its responsibilities were transferred to Morocco. However, activities in the region have been quite limited since then.

Over the years since 1985, \$137.5 million from three separate housing guaranty projects were authorized, and of that amount over \$100 million has been borrowed. Currently, all HG projects have ended but \$16 million remains to be disbursed for work already completed. Accompanying the various loans were \$13.2 million in Mission grant funds that were managed by RUDO.

Thus, in the past, the Mission has had a large urban program, directly managed by a RUDO. With the phasing out of the HG program and the loss of these resources, the RUDO and the Mission have re-examined the RUDO's role to see whether and how the RUDO can continue to be an effective partner within the Mission structure and programs. An interesting solution is emerging and the RUDO experience and networks are being utilized in support of a strategy that expressly recognizes an urban dimension in the Mission's development activities.

At the same time as RUDO resources were diminishing, the Mission was also facing hard choices concerning the future shape of its programs. Funding concerns and pressure to reduce the range of Mission programs have been key constraints. As a result, decisions were taken to phase out its health and education SOs in 2004 and to adopt a different AID developmental approach concerning a number of the issues facing Morocco. This approach consists of two major elements: a decision to increasingly concentrate the Mission's activities on the ground in one region, the Souss-Massa-Draa (Souss-Massa); and the creation of a crosscutting themes (CCT) team.

The shifts in the USAID-Morocco program take place against the backdrop of momentous changes in Moroccan life, referred to above in section I. As in Jordan, there is a new King, Mohammed VI, and there is the promise of new and more democratic governance practices.

### **Regional focus**

AID has embarked upon a new strategy to concentrate its resources in the southern region of Souss-Massa. The centerpiece of this strategy is the water resources management SO, which involves developing the region's river basin, a participatory approach to integrated water management in the watershed. Increasingly, other Mission activities in economic growth, e.g. micro-lending, health, and governance, are taking place in this region. The idea behind this is to create a model that can then be further applied in other parts of the country. Future work in decentralization that would involve improvements in governance is also an objective of this strategy. Accompanying this strategy is a continuation of efforts to work at the national level on policies in each of the SO areas.

### **The crosscutting themes team**

The CCT team is a logical consequence of the Mission's decision to focus resources in one region in the south. The mandate, practices, and resources of the team continue to evolve. Originally, the team began with a mandate to ensure better coordination of Mission activities in the Souss-Massa region, where more than half the Mission's resources are targeted. However, in terms of its own resources, the team's original purview only extended to gender and public-private partnerships. The FY03 R4 states that the Mission is considering refining the nature of the CCT to evolve into a participatory governance approach, which may be combined with the Democracy and Governance SO, still with a focus on the Souss-Massa region.

### **The current AID program**

As indicated, the overall program is evolving, with three new SOs and SpOs given approval in March 2000 and two SOs closing and being replaced with new SOs in the economic growth and water areas. The intention, as indicated above, is to concentrate most activities in the Souss-Massa region and to link these programs together. There are now five SOs and SpOs as follows: SO 5, increased opportunities for domestic and foreign investment; SO 6, improved water resources management in the Souss-Massa Region; SpO 7, key interventions to promote sustainability of population, health and nutrition programs; SpO 8, increased attainment of basic education among girls in selected provinces; and SpO 9, increased capability and active participation of civil society.

Of particular interest for the urban dimension of the Mission's program are activities under SO5 that involve micro-lending. A successful financial institution, Amana, was initiated under a previous SO. More than 100,000 small loans have been made and the network of offices increased dramatically. Much of what has taken place has been in urban and peri-urban areas and will be continued in the Souss-Massa region under the new SO. Another initiative that the Mission is now pursuing is to make use of AID's Development Credit Authority (DCA) for micro-loans related to employment generation and shelter. Finally, the Mission is also seeking to improve the administrative process by which public land is allocated for investment purposes, which has proved to be a hindrance to past economic activities.

The King has expressed an interest, as in Jordan, in having a more effective public service and process of governance, including having some form of decentralization, with details to be defined. Nevertheless, this is having an impact across each of the SOs. In the health and education SOs, the teams are working with their respective Ministries to begin to define decentralization. The essence of the water SO is a focus on the Souss-Massa region, which fits particularly well with the new intentions of the government. The water SO is concerned with managing resources more effectively on the local level (in the region and nationally) and how to ensure that the water resources that are in the region are sensibly and equitably divided among agricultural, industrial and rural uses. This is crucial to Morocco's future economic development. Finally, the new D&G SpO is a specific response to the new directions being charted by the Government. As previously mentioned, a decentralization study underway is expected to guide the Mission and the Government.

### **The AID urban program**

AID's urban program began in 1980 with the design and approval of a \$25 million upgrading project in Ben M'Sik, a low income bidonville in Casablanca. However, bread riots in 1981 in the bidonville led to the demise of this project. It was another three years before AID's urban program resumed, with the Tetouan Urban Development Project, consisting of a \$25 million HG loan for infrastructure upgrading and a \$5.2 million technical assistance grant to help develop an effective model for urban

development. This was followed by a second HG loan for \$20 million, accompanied by an \$800,000 grant to support a newly established agency responsible for upgrading in Morocco, ANHI. The final HG project was comprised of a further U.S. \$80 million for ANHI and U.S. \$20 million for the Municipal Infrastructure Bank, accompanied by a U.S. \$7.2 million Mission grant. This project was completed last year.

Overall, the urban program provided more than 150,000 low-income households with water and sanitation facilities. It helped more than 3.5 million people in 34 municipalities. The program introduced a number of financial, planning, and technological innovations to municipalities during a critical period of urbanization in the country. Nevertheless, as the survey of urban issues in section I reveals, urbanization continues to raise very serious problems for Morocco.

### **AID management of urban issues**

As mentioned, a USDH has been stationed in Rabat since 1987 and the RUDO office moved from Tunis to Rabat in 1996. Since 1987, most operating expenses for housing and urban related activities have been financed by the RUDO's parent office, G/ENV/UP, through earmarked resources accompanying the HG credit program. Morocco-specific program activities were financed under the grant programs. RUDO currently has one USDH, one professional FN (who has been with the program continuously since 1987), and one FN administrative support person. Nearly all of the unit's time in recent years has been devoted to urban and shelter issues in Morocco, rather than to regional needs.

### **c. Conclusions**

Urbanization in Morocco is continuing at a rapid pace, and in some places, at an overwhelming, pace. While Morocco has made progress during the past 20 years, with AID and other assistance, there remains much to do. There is also a risk that the gains realized may erode. Unmanaged and mismanaged urban growth will continue to be an impediment to development.

AID has a comparative advantage over most other donors in the housing and urban development field because of its long history of working with these issues in Morocco. In redesigning its program over the last several years, the Mission has continued to provide a basis for an urban dimension in its activities. However, the previous specific focus on urban needs has been weakened in the process because of the closing out of the HG program and its associated grants. Because of the importance that urban issues have assumed in Moroccan life, this possibly unintended consequence raises concerns and needs to be revisited.

The assessment team recognizes that resources are limited and the Mission is facing pressure from Washington to reduce the scope of its programs and limit the number of its SOs. The recommendations of this assessment reflect these realities. Some of the most important issues concern decentralization and better governance at the local level. Under the King's administration, there seems to be a spirit and movement



toward better governance at both the central and local levels. Decentralization in some form has also assumed greater prominence. Whether this will become a reality over the next several years is not yet clear. However, what is clear is that this issue is tremendously important for urban management and, ultimately, for development and stability in Morocco's cities. What is also clear is that the price of failure will be high. USAID has already responded to these changes and is undertaking a study on decentralization that should be ready before the end of this year. This constitutes a real opportunity to influence some of the most fundamental issues facing the country today, in the midst of its drought and economic stagnation.

Other urban issues, highlighted above, are also important:

- While Morocco continues decentralization efforts by trying to reinforce financial and budgeting capacities at the municipal level, there remain a number of barriers. The major obstacles include limited institutional capacities; insufficient resources, both human and financial; lack of managerial abilities and systems; local elected officials' over-reliance on the central government to define local development programs; and the inability of municipalities to make use of local, private sector expertise.
- Bidonvilles and other forms of substandard housing are again increasing as traditional low-income housing areas become saturated and more migrants are moving into small and medium-sized cities. The earlier successes in working with ANHI appear to be at risk.
- The emergence of entirely new and unplanned neighborhoods that completely surround cities and constrain planned future development; increasing exploitation of non-renewable natural resources that represent costs to the national economy of more than 8 percent of the GDP; and the persistent spatial imbalance in urban development between the coastal areas and the interior.

## 4. West Bank and Gaza

### a. The Development Context

#### The challenges

In addition to the challenges faced by most developing countries, West Bank and Gaza (WBG) also struggles with unique political concerns. The current round of violence and border closures has driven up its already high unemployment and poverty rates. In Gaza, more than half the population now lives below the poverty line. Governance and other development efforts have been stalled. Its GDP places it in the lower middle-income tier, but WBG has strong social indicators. The population is well educated. Literacy rates (both men and women) are over 85 percent, and over 95 percent for the younger population. More than 95 percent of all school-aged children are enrolled in school. Health indicators are also quite good, with low infant and child mortality rates and good access to health care. The health of the Palestinian people is better than typical for most people in the region. Questions remain, however, as to whether these advantages can be sustained under the present difficulties and with the ever-increasing population.

#### Palestinian population: young, urban, growing at a tremendous rate

The West Bank and Gaza have a population growth rate that is among the highest in the world – its population has been doubling every 20 years. Gaza is essentially entirely urbanized, and the West Bank is predominantly so. There are an estimated 1.1 million people in the Gaza Strip alone – an area roughly twice the size of Washington. The population of the West Bank is approximately 2 million.<sup>54</sup> There is both a high fertility rate and a low infant mortality rate, making for an annual population growth rate of 3.4 percent in the West Bank and nearly 4 percent in the Gaza Strip.<sup>55</sup> Unlike most other countries, there is not an inverse association between female education and fertility – each woman who marries is likely to have 10 children on average, regardless of her level of education or most other social characteristics.<sup>56</sup> Roughly, half the population is under the age of 15, and less than 50 percent of the working-age population participates in the labor market, leading to a very high dependency ratio of about one employed person for five others.<sup>57</sup> A significant portion of the population is, or will soon be, of reproductive age, so even with a large decline in fertility rates, the high population growth trend will continue. By 2010, WBG's population is projected to be about 4.4 million.<sup>58</sup>

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<sup>54</sup> *CIA Factbook*, July 2000 estimates.

<sup>55</sup> *CIA Factbook*, July 2000 estimates.

<sup>56</sup> Pedersen J, Randall S, Khawaja M, eds. *Growing Fast: The Palestinian Population in the West Bank and Gaza Strip*.: Fafo Institute for Applied Social Science, 2001) 13.

<sup>57</sup> World Bank August, 2000 figures.

<sup>58</sup> Fafo, p. 19.

### **Public expenditures – a quarter of all domestic employment**

Since the Oslo accords in 1993, the Palestinian Authority (PA) has some jurisdiction in limited areas under its control – for delivery of public services, law enforcement, and legislative power. Its share of public expenditures to GDP has increased from 12 percent in 1994 to more than 25 percent in 1999. This is not only higher than for most other lower middle-income countries, but also among the highest expenditure levels in the region. By the end of 1999, the PA employed more than 100,000 people – a quarter of all domestic employment.<sup>59</sup> Over half the total current spending goes to government labor costs.<sup>60</sup> The initial expansion of public sector employment was due to the increased responsibilities of the PA and the need to establish a police force (and the need for duplication of functions given the limited mobility between West Bank and the Gaza Strip). It is debatable whether the considerable increase since 1994 has been matched with an equal increase in public services or further expansion of responsibilities. Given the extraordinary pressures to find employment, particularly with the frequent border closures, this increase is in some part understandable. It poses significant threats, however, to sound fiscal management and future economic growth. The increase in public employment reduces the amount of resources available for poverty alleviation for the poor who are not in the labor market as well as for public investment in infrastructure and services. This level of public expenditure on civil service wages represents not only a stress on current public investment, but also the risk of a longer-term drain on public resources.

### **Municipal politics and civil society: strong past but troubled future?**

Without an official state, Palestinian local political institutions and local politics have historically served as the main form of political life in the West Bank and Gaza even before the Israeli occupation in 1967. The 1976 municipal elections in the West Bank were generally seen as a mandate for the PLO, and they focused on national, not local, issues. PLO-identified candidates won the elections, and their nationalist, pro-PLO beliefs led to many of them being removed from office and, in some cases, expelled, by Israel. Israeli policies toward local government in WBG tended to marginalize the role of municipalities in the 1980s. Furthermore, the PLO's rejection of the Camp David Accords in 1979 contributed to increased efforts to build civil society institutions, seen as a means to help mobilize Palestinian opposition to the occupation. There was a significant increase in Palestinian NGOs working in the areas of health care, labor unions, women's issues, education, and more. Many of these NGOs were explicitly political, and each of the major wings of the PLO set up parallel – and often competing – sets of organizations. These grassroots organizations came to play a more significant role than that of the official municipal institutions, and their mobilization efforts led in part to the Intifada of 1987-93. Leaders of the civil society organization building efforts were often grassroots leaders in the Intifada. Since Oslo, the building of civil society institutions has continued at an accelerated pace. Those who have been termed the

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<sup>59</sup>World Bank August 2000 figures.

<sup>60</sup>*West Bank and Gaza: Strengthening Public Sector Management*. : World Bank, 1999) p. 22.

“Intifada elite” typically have continued to base their social and political activities within the purview of civil society institutions, and very few have executive positions in the Palestinian Authority. The Oslo accords did not help bring to power the pro-PLO Intifada elite who were leaders on the ground, but the diaspora PLO elite based largely in Tunis. This has contributed to the PA’s tendency to centralize, not decentralize, political power. While there is extensive experience with vibrant local governance and civil society institutions, there is also increasing pressure for centralization and control. The PA has been sharply critical of Palestinian civil society institutions and the NGO sector in particular. It has even gone so far as to draft a harsh law to control them, based on Egypt’s Law 33. It was only heavy pressure exerted by the international donor community that tabled this draft.<sup>61</sup>

### Local governance

The institutional framework for governance is extraordinarily constrained. The Palestinian Authority has limited control of land, and no control over water, transport of goods and people or access to external markets. West Bank and Gaza do not have their own currencies, and its price levels are largely determined by the economic situation in Israel. Although there is a theoretical possibility of trade of certain goods with third parties (Egypt and Jordan) under the Paris Protocol, in practice trade patterns have not markedly changed since Oslo.

The Local Government Law of 1997 outlines the role of elected councils of local government units and their relationship to central Government, which is mainly through the Ministry of Local Government.<sup>62</sup> Local government units are organized into municipal and village councils. In theory, they are divided into four categories based on population, land area, and other characteristics. In practice, the designations appear to be at least partly political. The activities of local government councils are subject to the Ministry of Local Government’s oversight. By-laws, setting of taxes and fees, and the like require ministry approval. The local councils’ annual budgets must be ratified by the ministry to take effect, and, after such approval, the local councils may not later modify these budgets without further ministry approval. The ministry itself has prepared and adopted a number of by-laws that are concerned with matters that the local government law has assigned to local councils, but has yet to pass the required regulations for local council financial systems, procurement regulations, and personnel management. For its part, the ministry is still in the process of establishing guidelines as to how its approval function is to be implemented, leaving the approval process itself to be rather arbitrary. It should also be noted that technically the local government law itself cannot yet be fully implemented, as elections have not taken place, nor are they likely to be held anytime in the near future.

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<sup>61</sup>For more on local government and decentralization, see the 2000 discussion papers that came out of the USAID/WBG-funded Foundation for Decentralized Governance in West Bank and Gaza: Phase 1, conducted by ARD, Inc. (under USAID Contract No AEP-I-800-96-00009, DO No OUT-800). In particular, for discussion of civil society institutions, see *Working Paper 4: Civil Society and Local Government*.

<sup>62</sup>*Shaping Local Government Decentralization*

Urban municipalities in all categories are expected to provide local infrastructure services such as roads, sanitation, markets, etc. They can also issue a number of local permits, including building permits. Many municipalities are not capable of providing all these services, so some are simply not provided. Larger municipalities provide, and charge for, water and electricity. Whether water is purchased from the Israeli water company or produced from local wells, demand far exceeds supply. Central Government offices or NGOs provide health and education services. A number of agencies, including those for the ministries of transportation, health, education, industry, labor, public works, and the environment, carry out their planning and programming at the district office level. This means that municipalities are an administrative level below fundamental decision-making.

Since 1994, the strong demand for local direct representation has led to an increase in the number of municipalities, from 28 to 104, as well as 383 new village councils. Few of the newer councils can function as full local authorities because of severe revenue and staffing limitations. In response to this issue, some smaller municipalities and communes have been encouraged to form joint service councils to provide one or more specific services. These councils, which have their origins in Jordanian law, have served as a local response to locally defined needs and as a vehicle for donor-funded investments.

### **Utility services: scarce supply and high losses**

Although both water and electricity service coverage is ostensibly high, the quality and reliability of the service is quite problematic. As is the case for most of the countries in the region, water supply is a particularly critical – and politically sensitive – issue. Over 80 percent of the households (excluding East Jerusalem) are on water lines, and over 95 percent receive electricity. Wastewater services are inadequate; 1997 figures report only half the municipal households were connected to sewer lines. Sewerage treatment is minimal. Supply and consumption of both electricity and water is low by regional standards. Electricity supply per capita is about half that of Egypt, Jordan, Lebanon, and Syria. Water consumption is well below what it is in Jordan, and below the minimum amounts recommended by the World Health Organization. This scarcity is aggravated by very high system losses during distribution; about 30 percent for electricity and over 50 percent for water. Water supply is a particular concern in part because of the limited access to water granted by Israel and because the rate of withdrawal from underground sources vastly exceeds the recharge rate, which has resulted in sea and wastewater intrusion into groundwater. Furthermore, two-thirds of water is used for irrigation, without charge for the water.<sup>63</sup> On average 70 percent of all extracted water is used for agricultural purposes (and in Gaza, agriculture uses 150 percent of annually renewable water resources), while agriculture contributes only about 15 percent to the GDP. In contrast, industry and construction have consumed on average 13 percent of available water resources while contributing about 25 percent to the GDP. It is estimated that current agricultural output could be maintained with less water by improving irrigation methods.

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<sup>63</sup>*Strengthening Public Sector Management*, p. 51.

**b. AID in the West Bank and Gaza**

The West Bank and Gaza (WBG) has one of AID's largest programs, begun after the Oslo Accords were signed in 1993. The Mission's R4 for 2003 states that total AID funding through the eight years ending in FY01 has amounted to \$1.02 billion. Of this, however, approximately \$480 million remains to be obligated. Obligations are heavily dependent on progress in the peace process. Current political conditions have had an enormous negative impact on the ability to implement the program.

USAID-WBG's six SOs are: expanded private sector opportunities; greater access to and more effective use of scarce water resources; more responsive and accountable governance; selected development needs addressed; healthier Palestinian families; and improved community services. WBG is very urbanized, with Gaza virtually entirely urban, and the AID program reflects this aspect. There are two SOs that focus more specifically on urban conditions and issues: more responsive and accountable Governance; and improved community services.

While the Mission does not document its activities and programs in terms of urban and rural, it is clearly well aware of urban versus rural population trends. In addition to the two SOs mentioned above, the health and water SOs also impact substantially in urban areas, and the Mission provides support to a United Nations program working in the refugee camps, which are urban-based.

The Mission is in the planning/design stage of a municipal services program, called Construction of Infrastructure and Training to Improve Effective Services (CITIES). This will be focused on "B" municipalities (typically 10,000 to 20,000 inhabitants), with a package of small scale infrastructure activities – internal roads, schools, clinics, community centers, water networks – combined with some training in proper financial management and planning. CITIES is being developed by a cross-sectoral team and the improved community services team.

Under the governance SO, a project had been developed to focus on local governments. Unfortunately, because of the war's turmoil, the project has been cancelled. Appointed mayors govern municipalities, and there is no foreseeable possibility of holding elections. In the area of water management, the Mission has worked closely with the Palestine Water Authority and has been active in supporting the establishment of joint services councils at the local level.

The Palestine Water Authority is a central water authority. In a small, water-scarce country such as WBG, plans for decentralization to local water authorities are technically and politically complex. The Mission is proceeding cautiously in this area. Meanwhile, France has funded a privatization exercise that has examined the viability of establishing three separate utilities.

The Mission took an interesting approach with joint services councils in and around the town of Jenin. Eleven villages were grouped together and each municipal board voted one person onto the local water management board for that area. The water management board was also hoping to take on wastewater and other municipal tasks in some places.

There are many joint services councils now operating in the West Bank. Most of them are single issue councils, such as the one established for water management in Jenin (which was the first in the Palestinian areas). The majority of joint councils are for solid waste collection. Their effectiveness is undoubtedly impaired by the military situation. Under its Local Regional Development Program, UNDP has been establishing micro-region planning councils, which are similar and have had some success.

The Mission has no crosscutting themes team. In terms of sharing knowledge about what is happening and bringing in other perspectives, there are many opportunities for doing so through memberships on the SO teams. The Mission director indicated that the Mission has sought to establish such teams on an ad hoc basis to cover specific issues, such as corruption and local level democratic development – and that this might be appropriate for urban issues.

With regard to technical support, the Mission is in the fortunate position of having sufficient funds to be able to procure its own technical support needs directly. The Mission makes use of the normal mechanisms, either going through Washington or undertaking its own procurements. The RUDO has not been requested to provide assistance.

### **c. Conclusions**

USAID has not developed a specific and articulated approach to urban issues and urbanization – an urban policy framework. Nevertheless, USAID is aware of the changes taking place and the importance of addressing urban problems. The aborted local government program and the new CITIES program being designed are examples of this awareness. As one member of the Mission commented, many of the aspirations of both the country and the Mission are on hold or are currently moot because of the political and military situations. However, there are still opportunities to build upon existing contacts and to take advantage of opportunities that are presented.

## **5. Lebanon**

### **a. The Development Context**

Lebanon is an urban country, with most of the population living in or near the capital. In addition to the challenges typical to developing countries, political factors, both internal and external, have added to the country's difficulties. Torn apart by a 16-year civil war, Lebanon lost years of significant social and economic gains. It still does not have full

control over its own government, with Syria retaining a significant oversight role and troops on the ground. Over 10 percent of its population is Palestinian refugees. Despite massive reconstruction efforts, little attention has been paid to municipalities and basic infrastructure at the municipal level. The gap between rich and poor has been steadily widening. Environmental concerns such as high levels of water contamination and air pollution are having detrimental health effects, but overall social indicators are above the regional average. Maternal and child health indicators, access to health care, and high literacy rates are all encouraging.

**Lebanon: an urban state**

Lebanon is almost entirely urbanized – 90 percent of the population lives in urban areas. The country has not conducted a census, housing survey, or major national demographic survey since 1932, and precise demographic statistics can be hard to come by. The *CIA Factbook*'s July 2001 estimates place Lebanon's total population at about 3.63 million, of which about half live in Beirut. The next largest urban area is Tripoli, in the north, with a population over 350,000. Other larger population centers include Sidon, about 25 miles south of Beirut, with a population of about 165,000; Zahle, about 30 miles east of Beirut, with a population of about 125,000, and Tyre, in the south, with a population of about 110,000. The annual population growth rate is 1.73 percent. As is common in the region, the Lebanese population is quite young: 34 percent of the population is under 15 years old and 20 percent is between 15 and 24 years old.<sup>64</sup>

**Post-conflict: reconstruction but also rising disparities**

Lebanon has been slowly rebuilding after its brutal civil war. Most of the militias have been disbanded or at least significantly weakened. Hizballah retains its weapons. The Lebanese Armed Forces (LAF) have extended central Government authority over roughly two-thirds of the country. Syria still maintains about 25,000 troops in Lebanon. Israel withdrew from southern Lebanon in May 2000. Since 1991, Lebanon has established a more equitable political system that gives Muslims a greater say in the government. Parliamentary elections were held in 1992 and again in 1996. Municipal elections were held in 1998, the first since 1963, and were deemed by the United Nations to be "highly successful." Political representation remains organized on a confessional basis, however, with a system of proportional representation of religious committees. This has tended to mean government by consensus, which can make significant reforms difficult to undertake.

Lebanon's protracted civil war seriously damaged the country's economic infrastructure. National output was halved, and the country's former key strategic position as a Middle Eastern entrepôt and banking center was all but lost. With the restoration of peace, the Government was able to regain access to key port and Government facilities. Lebanon engaged in an ambitious reconstruction effort, directly mainly at rebuilding the physical infrastructure. Economic recovery was also helped by the country's relatively

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<sup>64</sup>Embassy of Lebanon. 1997 figures.



sound banking system and the small and medium-scale manufacturers that were able to survive.

The Government is taking steps to integrate itself into the regional and global economy, including signing trade agreements with Syria, Egypt and Kuwait, and participating in the World Trade Organization (WTO) as an observer. Major policy and administrative reform issues, however, essentially were not addressed. There was a heavy reliance on domestic resources, withdrawing foreign reserves and borrowing heavily, to finance reconstruction efforts, resulting in major deficits and an increasing public debt.

While Lebanon's real GDP growth was encouraging in the mid-1990s, it has been steadily decreasing. From a growth rate of 8 percent in 1994, 2000 estimates put Lebanon's GDP real annual growth rate at only 1 percent.<sup>65</sup> Efforts to help restart the economy have also been hindered by the growing distortions and disparities – regional, sectoral, and demographic. The benefits of the massive public spending program have not trickled down to the majority of the population, and the gap between the rich and the poor has widened considerably. According to 1999 estimates, 28 percent of the population living below the poverty line,<sup>66</sup> and UNDP estimates that 35 percent of the population falls under its unsatisfied basic needs index

### **Urbanization and civil unrest**

A number of studies have posited that Lebanon's rapid urbanization both contributed to the civil unrest and lead to increase in the number of the poor. The urban poor make up at least 20 percent of Lebanon's population, and Beirut is increasingly a city of extreme wealth and extreme poverty. Its outlying urban areas are poorly integrated with the economic and social fabric of the capital. The government ignores the poor at its own risk – the combination of a system of confessional parties and the large number of urban poor could prove destabilizing. An example frequently cited is that of the success Hizballah has had in recruiting among the Shi'a underclass. The UNRWA reports that there are a total of 376,000 Palestinian registered refugees in Lebanon – over 10 percent of the total Lebanese population. Fifty-six percent of the Palestinian refugee population lives in refugee camps in peri-urban areas. Socioeconomic conditions in these camps are typically poor, with high population density and inadequate basic infrastructure. The remaining Palestinian population generally lives in urban areas nearby the camps.

### **Lebanese municipalities: unmet needs and inadequate resources**

Lebanon's massive reconstruction efforts were directed towards rehabilitating and upgrading regional infrastructure, particularly power and telecommunications services, water and wastewater systems, solid waste management, and transportation. The reconstruction program was not designed to rehabilitate or upgrade municipal essential services. Consequently, the needs of municipalities have not been met. The absence of municipal elections until 1998 further hindered efforts to address these needs. To help

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<sup>65</sup> *CIA Factbook*, 2000 estimates.

<sup>66</sup> *CIA Factbook* 1999 estimates.

approach some of these issues, the Government established the Ministry of Municipal and Rural Affairs (MOMRA) in 1993. Its responsibilities include addressing the institutional and infrastructure needs of municipalities and rural communities, especially those unable to provide municipal services on their own and coordinating regional initiatives concerning municipal services. Notes the World Bank, “activities have been fairly modest to date.”<sup>67</sup>

Among the many challenges facing the municipal sector are the inadequacies in infrastructure, finance, and institutional capacity. Urban areas generally have decent access to basic services: roughly 89 percent of the population has access to a piped water network; and about 70 percent are connected to a sewerage system. It should be noted, however, that these averages hide the large disparities between districts. Poorer districts in the north and south have much lower rates of access to basic services. Furthermore, access is just part of the problem – the existing infrastructure, including roads and drainage and water and sewer networks, is in a state of disrepair. Only the largest and most well-to-do municipalities have been able to even start tackling the backlog of maintenance and upgrading needs.

Addressing these needs is handicapped by the poor state of municipal revenues. Own-source revenues collected by municipalities are from 16 different fees and taxes, which are not cost effective to administer. Municipal revenues are further hurt by the fact that most municipalities have been unable to count on the intergovernmental transfers that are legally due to them. These transfers, from taxes and fees collected by the Government on behalf of the municipalities, have instead gone to regional projects and agencies. Lebanese law created an Independent Municipal Fund (ImF) in 1979 (and amended in 1991), an account held in trust as part of the Lebanese Treasury, for the benefit of municipalities and municipal associations. ImF revenues include taxes and fees collected by the Government on behalf of the municipalities and mandated shares of customs duties and surcharges on utility payments and insurance policies. For the past several years, the ImF distribution has essentially been withheld. The few transfers made were generally for the benefit of the largest municipalities. The World Bank estimates that the treasury’s arrears in distributions to the municipal sector are roughly U.S. \$500 million.<sup>68</sup>

Limited institutional capacity remains a concern at both the central and local government level. The vast majority of municipalities have weak administrative capacity and many have none at all. The neediest municipalities rely on the support of central government – generally through MOMRA. MOMRA itself, though, is not technically equipped to perform this function.<sup>69</sup>

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<sup>67</sup>, *Project Appraisal Document ... for a First Municipal Infrastructure Project*. World Bank Infrastructure Development Group, Middle East and North Africa Region, 2000.

<sup>68</sup>*Project Appraisal Document ... for a First Municipal Infrastructure Project*.

<sup>69</sup>*Project Appraisal Document ... for a First Municipal Infrastructure Project*.

## Decentralization and deconcentration

Even with the municipal elections, decentralization remains largely theoretical, given that municipalities have very limited control of their resources – particularly their financial resources. In addition, although cabinets of the central government have paid increasing attention to the idea of deconcentration, in actuality much of the Government's administrative functions remain quite centralized, to the point where even very minor transactions must be conducted in Beirut. Other governance issues include the lack of transparency and accountability at all levels of government. Lebanon ranks high on the list of countries with high levels of corruption, rating a 10 from the International Country Risk Guide (0=no corruption; 10+ =high corruption).<sup>70</sup>

## Employment

Seventy-seven percent of males aged 15-64 participate in the labor market; female participation in the labor market is 21 percent for the same age group. Services form the largest employment sector (40.8 percent), followed by trade (23.2 percent), industry (15.1 percent), construction (11.6 percent), and agriculture (9.3 percent).<sup>71</sup> Using a narrow definition of employment, explicit unemployment was estimated to be around 8.6 percent in 1997. Marginal employment in the informal sector, underpaid and temporary employment, over-employment in the public sector all indicate implicit unemployment – suggesting an effective unemployment rate at least twice that of the explicit estimations.<sup>72</sup> Even with the high level of unemployment, many Lebanese avoid work they consider to be blue-collar. UNDP estimates that 54 percent of the national labor force is foreign labor (typically from Syria, Egypt, Sri Lanka, Philippines, and Africa).<sup>73</sup> Unemployment among youth is particularly problematic, and first-time job seekers spend on average more than a full year in search of fitting employment.<sup>74</sup>

## Urban threats to the environment

Unlike most of the countries in the region, Lebanon is not water-scarce. Much of its water, however, is heavily polluted. The United Nations Children's Fund (UNICEF) estimates that nearly 70 percent of Lebanon's drinking water sources are contaminated. A predominant sewage disposal technique is to use open sewers emptying into the sea or nearest stream. Industrial wastes are likewise dumped into the sea. Some industries dump their waste into deep bore-holes, posing a risk to groundwater. Prevalent water-borne diseases in Lebanon include typhoid, hepatitis and dysentery. Air pollution is also a major problem in urban areas; major sources include power plants, vehicular traffic, and burning industrial waste. The use of leaded gasoline without catalytic converters has

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<sup>70</sup>*Common Country Assessment Report*, 1998, online at <http://www.un.org.lb/data/cca/governance.htm>.

<sup>71</sup>UNDP 1997 figures.

<sup>72</sup>UNDP 1997 figures; *CIA Factbook* 1997 estimates unemployment at 18 percent.

<sup>73</sup>*Common Country Assessment Report*; *CIA Factbook*.

<sup>74</sup>UNDP.

led to the country having a high level of lead poisoning.<sup>75</sup> Urban sprawl has been a significant contributor to Lebanon's pressing land degradation problems, including deforestation, erosion, and desertification.

**Social indicators: generally strong**

Notwithstanding its very real difficulties, Lebanon's health and education indicators are significantly stronger than average for the region. Life expectancy and access to health care and childhood immunization rates (both around 95 percent) are all quite good. Approximately 87 percent of women receive health care during their pregnancies, and 96 percent of births are attended by trained personnel.<sup>76</sup> Roughly 85 percent of the total population over the age of 15 is literate, and for the younger generation, the literacy rates are over 95 percent.

**b. AID in Lebanon**

Lebanon has one of AID's larger programs, although it is small by Middle East standards. Lebanon's current OYB is \$35 million, with an additional \$10 million in food assistance. This is triple its size from a year ago. Because of the security situation, it is managed by one U.S. direct hire, who relies on USAID-Jordan for accounting, contracting, and legal support.

Years of civil war, the Israeli occupation in the south and Israel's withdrawal in 2000, and the Middle East peace process provide the context for AID's efforts in Lebanon. At the end of the civil war in the early 1990s, and in spite of the overwhelming urbanized state of the country, the United States Government made a political and strategic decision to work in the poorer rural areas that had been affected by the war. However, through the years, this focus has been evolving and the Mission director indicated both knowledge of the urbanization trends and the consequent growth of coastal cities, and an interest in pursuing the implications of urbanization. The Mission is now in the process of expanding its local government decentralization and strengthening program from 122 municipalities, the majority of which have been in rural areas, to include all of Lebanon's 700 municipalities.

**Strategic objectives**

AID's program in Lebanon is concentrated in three areas: economic growth, governance, and the environment. Because of the security situation, the U.S. presence in Lebanon is limited. As the R4 states, this is the quintessential small mission. USAID-Lebanon's current three SOs are:

- reconstruction and expanded economic opportunity, primarily through the Rural Community Development Cluster Program, which involves working on an integrated

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<sup>75</sup> *Common Country Assessment Report*.

<sup>76</sup> UNDP, 1996 and 1997 figures.

basis through village committees and municipalities to improve economic opportunities and infrastructure in the South;

- increased effectiveness of selected institutions that support democracy, which includes a program of anti-corruption activities and substantial funds for local government decentralization and strengthening, with 122 municipalities, 77 of which are located in the south and are part of the rural cluster program; and
- improved environmental practices, which is largely targeted at awareness raising of environmental issues in the rural areas. Because of limitations on funding, the third SO to improve environmental practices has been scaled back.

The Mission director indicated that AID would be revising its strategy in the coming months and that urbanization and rural/urban linkages would be examined during this process.

RUDO has not provided assistance to the Mission. Of historical interest is that Lebanon did receive Housing Guaranty assistance in the 1970s and 1980s as part of AID's reconstruction efforts.

### **Other donors**

The World Bank, European Union, and UNDP are the main donors in the urban field.

### **c. Conclusions**

Lebanon is the most highly urbanized country in the region. While AID attention to urban areas is increasing, AID programs in the past have been mainly centered in the more rural areas of the country. Understandable as this was in the context of the need to reconstruct the country and in the light of political considerations, it now seems appropriate to consider strengthening urban emphasis.

The Mission appears to have made a solid beginning in its efforts to work with municipalities and will be expanding this to cover all of Lebanon's municipalities. Hopefully, this will include, conditions permitting, working with the largest urban agglomerations.

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## **West Bank & Gaza**

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**ANNEX D**

**Management Assessment of Urban Programs for  
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Ahmed, Moslehuddin	Family Health AID/Bangladesh
Alamgir, Dewan A.H.	Job Opportunities & Bus Support AID/Bangladesh
Alcedo, Tom	Director CARE India
Alexander, Timothy	Supervisory Project Development Officer AID/Egypt
Al-Jabiri, Jamal	Private Sector Office AID/Jordan
Al-Kabir, Ahmed	Chief of Party Urban Family Health Partnership, JSI Internat'l Bangladesh
Allayan, Abdullah Elia	Former head of Civil Service Government of Jordan
Ameur, Mohamed	Secrétaire Général Du Département de l'Aménagement du Territoire et de l'Urbanisme Ministère de l'Aménagement du Territoire et de l'Urbanisme, de l'Habitat et de l'Environnement, Morocco
Anand, T. Vijay	Vocational Training Centre EXNORA NGO India
Anantani, Dr. Yashesh	Exec Dir, City Managers Association, Gujarat Ahmedabad Municipal Corporation India
Anderson, Ed	AID/ANE D&G

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Anderson, Jay	Family Health AID/Bangladesh
Anderson, Tim	Team Leader, Food Security AID/Bangladesh
Anwar, Dr. Iqbal	Program Specialist Urban Family Health Partnership, JSI
Arandel, Christian	Director, Policy & Governance Department Environmental Quality International (EQI) Egypt
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Banerjee, S.	Joint Sec'y Ministry of Urban Development and Poverty Alleviation India
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Baum, Ken	Economist AID G/ENV
Bednar, James	Mission Director AID/Morocco
Berrada, Tahar	Environment & Urban Programs AID/Morocco
Bever, Jim	Deputy Mission Director USAID/India
Bhattacharjee, Nabaroon	Lead FIRE Manager RUDO USAID/India
Bhattacharyya, Dipayan	WFP United National Food Programme
Bhuyan, Jayant	Secretary General The Associated Chambers of Commerce and Industry of India
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Bisson, Jerry	Chief, Office of Environmental Management AID/Philippines
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Borrazzo, John	Environmental Health Officer AID G/PHN/HN/EH
Bouazza, Aderrahim	Economist AID/Morocco
Boyer, Jeffery	Housing/Urban Development AID G/ENV/UP

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Christiansen-Wagner, Toni	Mission Director AID/Jordan
Cohen, Monique	Senior Technical Advisor AID Office of Microenterprise Development
Cohn, Rebecca W.	Division Chief AID ANE SPOTS
Crump, Patrick	Director of Programs NGO Service Center, Egypt
Cruz, Gil Fernando C.	Executive Director League of Cities of the Philippines
Cullivan, Donald E.	International Consulting Engineer
Cullum, Amy	Program Development Urban Family Health Partnership, JSI
Cummings, John	Economist Internat'l Bangladesh
Dadi, Jamal	Program Development Specialist AID/Egypt
Daly, Gerard	Programme Advisor AID/Morocco
Daoud, Ra'ed	Managing Director WFP United Nations
Dasgupta, Alok S.	RUDO/SA Nepal Coordinator EnviroConsult Jordan
Dayao, Leonardo V Jr.	Population, Health and Nutrition USAID/India
De Sagun, Napoleon E.	Program Mngr, Office of Economic Development and Governance AID/Philippines
Dela Cruz, Josie M.	Governor Province of Bulacan, Malolos Philippines
Devi, Kirti	Procurement, O&M TCGI and PADCO FIRE Project India
Doe, Brenda	FP/Reproductive Health Team Leader AID/Egypt
Dulce, Jose Boy	Prog Mngr Office of Environmental Management AID/Philippines
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Endencia, Remedios S.	Division Chief National Economic and Development Authority Philippines
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Gaber, Dr. Ahmed	President Chemonics Egypt
Garber, Larry	Mission Director AID/WB/Gaza
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Gowen, Daniel	Program Officer AID/Morocco
Gozum, Bebet G.	Independent Consultant
Gray, Barry	Chief of Party Capital Markets Development Project Egypt
Grossman, David	Program Analysis Officer AID
Hagger, Jeremy	Project Development Officer AID ANE/US-AEP
Hamman, Sonia	MNA Region World Bank
Haque, Rezaul	Sr Democracy Advisor AID/Bangladesh
Harmon, James	Water/Wastewater AID/Egypt

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Heesen, David	Dep Director RUDO USAID/India
Heijnen, Han A.	Environmental Health Advisor WHO Bangladesh
Heisler, Doug	Sup Health Officer Team Leader AID ANE/SPOTS/SPTS
Hijazi, Dr. Amal A	Environment Officer AID/Jordan
Holt, Tyler	Privatization Advisor AID/Egypt
Islam, Nazrul	Chairman Dhaka WASA Board Dept of Geography, U. of Dhaka
Jain, Renu	WID Office USAID/India
Jeffers, William	Supervisory Program Officer AID ANE/SPOTS
Jerry Tarter	Program officer USAID/India
Jha, Gangadhar	Research Professor National Institute of Urban Affairs India
Jorgensen, ALEX	Sr Project Officer-Social Sector Asian Development Bank India Resident Mission
Joseph, Amita V.	Anti Trafficking- SARI - Q USAID/India
Kabir, Ekramal	Project Coordinator CARE Bangladesh
Kabir, M. Golam	Food Security AID/Bangladesh
Kailashnathan, K.	Municipal Commissioner Ahmedabad Municipal Corporation India
Kamaruzzaman, Md.	Energy AID/Bangladesh
Kazi, Noor M.	Environment Consultant Environment and Development Associates (Bangladesh NGO)
Kenny, Simon	Engineering Advisor DFID British High Commission
Khalil, Magdy	Team Leader Small Business AID/Egypt
	Development/Finance & IT Division
Khan, Rezaul Karim	Economist Asia Development Bank Bangladesh
Khan, Zahed, H.	Senior Urban Specialist World Bank Office, Dhaka
Kimm, Peter	Executive Director AID ANE US-AEP Secretariat
Kitay, Michael	GC for DCA
Knox, Mary Hughes	Deputy Director AID WID
Kresge, Peter	General Development Officer AID/Morocco

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	India Urban health Project
	Ministère de l'Aménagement du Territoire et de l'Urbanisme, de l'Habitat et de l'Environnement, Morocco
Laza, Vincente A.	Senior Vice President
League, Lito	The World Bank
Leibson, Dave	Senior Advisor to US-AEP
Lha, Ashok K.	Economic Growth; FIRE (D) Mngr
Lion, Linda	Sr Deputy Assistant Administrator
Lugos, Modesta G.	Vice President for Plng & Dev./Director, Cntr for Local Governance
	Bulacan State University Philippines
Lumbao, Lisa Kircher	Country Coordinator
Mahajan, Capt Dilipkumar	Assis Municipal Commissioner
Makwana, D.B.	Dep Municipal Commissioner
Malathi, S.	Commissioner, Department of Economics and Statistics
	Ahmedabad Municipal Corporation India
	Ahmedabad Municipal Corporation India
	State of Tamil Nadu Chennai City India
Mangalindan, Rex M.	Management Information Systems Office
Mango, Cecily	(Former Jordan Progam Officer)
Mathur, Om Prakash	Professor
	Province of Bulacan, Malolos Philippines
	AID LAC
	National Institute of Public Finance and Policy India
Maurer, Robert	Lead Urban Sector Specialist
Mazumder, Azarul	Environment
Mazumder, Azharal H.	Environment
McCluskey, Delbert	Chief. Program Management
Melnyk, Mary	Senior Advisor, Natural Resources Management
Mercado, Remigio A.	Regional Director & RDC III Vice Chairman
	AID ANE
	AID ANE
	National Economic and Development Authority Philippines
Miciano, Emmanuel R.	Economic Development and Governance
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Moore, Franklin C.	Associate Assistant Administrator AID/G/ENV
Morad, Tarek	Royal Netherlands Embassy, Egypt
Moskov, Bethanne	Health Office USAID/India
Mostafa, Nagla A. A.	Civil Society Officer/NGO Service Center Project Officer AID/Egypt
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